SURVIVING ON THE ECONOMIC BRINK

Maya Entrepreneurs In The Urban Informal Sector Of Guatemala

by

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This study has focused on the conditions of indigenous entrepreneurs of production in the urban informal sector. In that sense, it is a first of its kind. Eleven Maya entrepreneurs in the city of Quetzaltenango, Guatemala, in five different productive activities, were interviewed. In addition a control group of three Ladino entrepreneurs was established and some large formal enterprises were visited.

Besides analyzing the general working situation of the Maya entrepreneurs, the study tested two hypotheses on ethnicity. The first put forward the assumption that Maya entrepreneurs use their ethnic network to promote their enterprises, the other that Maya entrepreneurs are active in certain activities of the informal sector and not in others, due to, for example, structural conditions in the ethnically stratified and segregated society of Guatemala. Neither of these hypotheses were substantiated by the data. However, while ethnic segregation was not observed among Ladino and Maya entrepreneurs of production, there is circumstantial evidence of a *structural* discrimination that forces many Mayans who do not succeed in establishing a productive enterprise, to try their luck in the less economically promising sector of commerce.

Besides the ethnic aspects, the study gave conclusive evidence for answers to some of the questions directed towards the informal sector in general, among them, the question whether or not capital accumulation takes place and, eventually, to which extent. The annual capital accumulation among productive enterprises in the informal sector of the city of Quetzaltenango was modeled. The results indicate an accumulation per year of roughly $1.5 million. Recalculations with a sensible variation of some of the crucial assumptions, gave results within a band of $1.35 million - $1.65 million. The capital is accumulated by 258 enterprises, with four or more workers (including the owner), with a total work force of 1,320 workers, out of a total of 1879 enterprises of production. To this author's knowledge, no similar attempt of such an estimation has been reported in the literature before.

The study offers calculations on the economic take-home earnings of some of the Maya entrepreneurs and identifies the mechanisms behind the entrepreneurial successes and failures. It concludes that it is necessary to distinguish between enterprises of production and enterprises of commerce due to their different natures. It presents data on the labor wages in the informal sector. It shows that the salaries are, first, closely related to the productivity of the individual worker, and, second, that, probably more often than not, they are tied to fluctuations in the demand of the market for the products of the enterprise. This means that the salary bracket within one economic activity may vary widely throughout the year. Other topics where the study offers new insight on entrepreneurial practice in the informal sector, are on lending conditions and the use of formal loans, on taxation, on the use of different management schemes and the potential of these, and on productivity and profitability within different economic activities. A list of the findings of the study is given at the end.

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INTRODUCTION

"Solutions are often problems in disguise."
Karl Popper

The Study

OBJECTIVES

The objective of this study was to identify the specifics of the working situation of Maya entrepreneurs in the urban informal sector of Guatemala. More concretely, the ambition was to determine if ethnicity plays a role in the success or failure of indigenous entrepreneurs and, if so, which aspects influence the outcome. Two hypotheses with respect to ethnicity were forwarded for testing. First, that Maya entrepreneurs may work primarily in certain economic activities and not in others (hypothesis #1). And, secondly, that they may have to use their ethnic social network to maintain and promote their enterprise (hypothesis #2). In addition, it was expected that the study would offer information of value to ongoing debates in the academic literature directed towards the informal sector. Among subjects focusing on unresolved questions can be mentioned those of the structure of informal wages, financial opportunities, the possibility of capital accumulation,, productivity of the informal versus the formal sector, and the kind and degree of interrelationships between the formal and the informal sector.

SCOPE

The focus of the study was enterprises of production. The fieldwork was done in Quetzaltenango, Guatemala's second largest city that has an ethnic population mix of roughly 60-to-40 percent Maya-to-Ladino people. The fieldwork was based on interviews with eleven Maya entrepreneurs who were running workshops within five different activity sectors - car work, carpentry, and manufacture of clothes, shoes, and food. For control purposes, interviews were made with three Ladino entrepreneurs in some of the aforementioned activities, i.e., in car work and production of clothes and shoes. To identify the kinds of state regulation that are being avoided by the informal enterprises, i.e., those conditions which, by definition, make them "informal" in the first place, a number of large formal enterprises in Quetzaltenango were contacted. The fieldwork and the draft of this report were completed in Quetzaltenango during six weeks of the summer of 1999.

DEFINITIONS

Conforming to an increasingly pronounced trend, the terms *Maya* and *Ladino* are used for a member of the indigenous and the mestizo population of Guatemala, respectively.

* The terms *Maya* and *Ladino* will refer to members of different socio-cultural groups, with the proviso that the term *Ladino* will most commonly be used for those parts of the population that have a Spanish-oriented cultural background. This topic will be discussed in the text.
* By *informal sector* will be understood those enterprises that avoid state regulation, such as fiscal obligations and labor standards, in contexts where similar activities are so regulated. If not otherwise stated, the term will refer to the urban (non-rural) sector.
* By an *entrepreneur* will be understood a self-employed person who has established an enterprise with the purpose of earning his daily living.
* By a *microenterprise* will be understood an enterprise with less than 10 workers (including the owner) if not otherwise stated. In the academic literature, the definition of a microenterprise varies, sometimes meaning an enterprise of up to five and sometimes up to ten workers. Some definitions include explicitly the owner in their number, others don't. In this study, for reasons explained in the text, the term *small enterprise* will be preferred, to indicate that enterprises referred to employed few workers but not rigidly less than ten.
* By an *enterprise of production* (a productive enterprise) will be understood an enterprise whose primary objective is to transform primary materials into value-added products for intermediate or final consumption. A productive enterprise that includes a shop where the products are sold will be included in this category.
* By an *enterprise of commerce* (a commercial enterprise) will be understood an enterprise whose primary objective is to buy and sell goods and/or perishable products. Included in this category is also entrepreneurship related to transport of these kinds of products.
* The terms *poverty line*, *not poor*, *poor* and *extremely poor* are measures of a family's ability to acquire the basic necessities of certain goods and services by using its total income and taking advantage of social services, if any, offered by the state. By 'basic necessities' are meant the conditions of the living quarter (as housing quality, construction materials used); degree of access to public services (as drinkable water, bath, sanitary system); access to the educational system (as schools for the children); and access to wage-earning work (as source for other basic necessities).
* By *an ethnic community* will be understood a social group that shares a common ideology, common institutions and customs, and a sense of homogeneity. For other definitions related

to ethnicity, see the discussion in Chapter 2.

* By an entrepreneur's *take-home earnings* will be understood the entrepreneur's economic gain on the activity of his enterprise after salaries to workers and expenses on the raw material of the products have been subtracted. For reasons given in the text, expenses like the cost of housing, electricity, taxes etc. have been ignored.
* By *capital accumulation* of an enterprise will be understood, loosely, that part of the take-home earnings of the entrepreneur that is above the maintenance cost of his family and the upkeep of the equipment and the installations of his enterprise.
* By *minimum wage* will be understood the monthly income necessary for a family to cover its basic necessities. The size of the family (the norm being two adults and four to five children) and whether or not it lives in an urban or rural area, need to be specified.

THE OVERARCHING HYPOTHESES

The focus on ethnicity with respect to the informal sector in a developing country, like Guatemala, implies attention to three aspects that neither individually nor collectively are well described in the academic literature.

The first aspect is the possible manifestations of differences in networking within interacting ethnic communities with respect to working conditions of consolidated business environments in ethnically stratified societies. I hypothesized that differences in culture and socioeconomic profile between the Ladino and Maya population would be reflected in the kind of economic niche informal entrepreneurs of the two categories would decide to establish their enterprise within, the way they would establish a market for their enterprise, how they would do networking to facilitate their workshop, and the degree of success they would experience under otherwise equal conditions.

The second aspect refers to possible differences in how informal entrepreneurs of different ethnic background exploit their opportunities to raise capital for start-up and operation of their enterprise. It was hypothesized that if certain crucial factors were favorable - like a good social and professional network, established trust among parties involved, a successful past of the enterprise, promising prospects for the activity, and/or the presence of some kind of collateral - an informal entrepreneur ought to be able to raise capital for his enterprise or delay payment on his financial obligations, and thereby either expand his enterprise or keep his operations afloat in times of hardship. As will be shown, the academic literature does report on financial opportunities in the informal sector, but primarily as fall-outs from studies of other foci. While the financing opportunities, in theory, may be equally accessible for entrepreneurs

of different ethnicities, they may be used differently for reasons which could be explained, in part or in full, by structural conditions of the society and the ethnic communities themselves.

And, finally, the third aspect refers to the fact that the extent and the nature of crossovers between the formal and informal sector are, in general, only weakly understood and has not been approached from the angle of ethnicity before. As will be shown, the literature makes clear that, at times, successful cross-linkages indeed take place between the formal and informal sector, either in the form of financial opportunities offered by the formal sector to the informal entrepreneurs or as market opportunities, like subcontracting of petty production.

Because this study was an analysis of the economic situation of a relatively small number of interviewees in a previous uncharted sector of the informal activities where ethnicity was supposed to play a role, the preparatory work for the study was extensive. It included reviews of what has been reported in the literature not only on the aforementioned ethnic aspects, but also on economic aspects of the formal sector, like financial opportunities, income levels and capital accumulation. Unpublished but authoritative data on the present lending pattern in the informal sector that were received from Guatemala during the preparation for this study, are commented upon.

It is widely assumed that the overwhelming majority of small-scale entrepreneurs are working closely to the margin of profitability. Saving on overheads, such as fiscal and social welfare obligations and insurance costs for the workers, as well as expenses on the safety standard of the working environment, becomes an important part of the survival strategies, thereby driving the enterprises into the informal sector. Informal entrepreneurs may, out of necessity, observe one or more of their legal obligations, but never all. It is important to understand that they are less a part of a clandestine activity than economic operators who take advantage of the authority's lack of ability to impose its will. For this reason, the distinction between formal and informal entrepreneurs should be seen as a continuum rather than as a sharp break.

RESEARCH PROBLEMS AND METHODOLOGY

It was expected that the ethnic aspects discussed above would manifest themselves as differences in the economic situation of entrepreneurs of different ethnicity. Therefore information on the economic circumstances of the entrepreneurs was assumed to be the key to the research questions of this study. It was appreciated, however, that the data this study would ask for were of a sensitive nature and that the survey necessarily would address the very basis - informal, at best, and illegal, at worst - of the involved enterprises. Benería (1989) mentions that

the task of establishing contacts with informal workshops was a major problem in her and her coworker, Roldán‘s study from 1987. My study did not have the benefit of support from formal subcontracting firms as those two authors had since its approach was different, going from the informal to the formal enterprises in case the latter category was involved. Further, it was expected that the author, an apparent gringo, would be met with more skepticism by Mayans than by Ladinos. For these reasons it was decided that owners of Maya enterprises would have to be identified and trust would have to be established with the help of a third party known to the entrepreneur, before the actual fieldwork could start. To identify these go-betweens would require a difficult and time-consuming process, which would limit the scale of the study. As will be discussed later, this part should not be an obstacle as perceived.

Initially I planned to focus on Maya entrepreneurs who manage small enterprises of minimum 1-2 and maximum 7-8 employees, in addition to possible family members of the entrepreneur. The reason for these limits were, on one hand, that a considerable amount of scholarly work has already been done on “single-person” and family-led microenterprises of one to two persons working part- or full-time (Babb, 1989; De Soto, 1989; Bromley, 1978), sometimes in connection with research on household subsistence strategies (Roberts, 1991, 1994). On the other hand, it was assumed that the supposed ethnic distinction among small enterprises would be watered down or be less easily distinguishable the more persons the enterprise employed and the need increased to spread the activity more widely around. During the fieldwork, however, it was quickly realized that economic and not ethnic considerations determine the professional dispositions of the entrepreneurs. Enterprises with a reasonably large work force often had more subtle experiences than owners of smaller enterprises on the same kind of problems with respect to the market, labor, financing of their activities and relations to the authorities. For this reason, enterprises with ten and more workers were not excluded from this study solely on the basis of quantitative criteria. The enterprise of the study with the largest work force had 13 workers, including the owner. (The enterprise of entrepreneur EM-3 - the coding of the entrepreneurs will be explained later - represents a special case.)

It was decided that the enterprises had to be chosen from a “fair” number of different economic activity sectors to ensure that possible aspects of only one or a few trades would not bias the generalized conclusions I expected from the study. Typically productive activities in Quetzaltenango are garment manufacture, shoe manufacturing, equipment repair, furniture/wood products, petty production of a range of products, and food processing, to mention a few, with the first two being the most dominant. In total, five sectors would be sampled.

The qualitative questions that were raised by the study implied that a "sufficient", though, not necessarily a large number of Maya interviewees were required. Initially, it was proposed that 6-8 persons would be enough. During the fieldwork the number of interviewees was increased to a total of eleven, primarily to meet the objectives of the study, but also to resolve ambiguities in the information received and to justify more generalized conclusions. In addition, three Ladino entrepreneurs were interviewed. The latter group was included to ensure that what could be perceived as unique for Maya entrepreneurs by the Mayans themselves, particularly with respect to possible difficulties they had encountered when they established or had been running their enterprises, were not common entrepreneurial problems. A number of large formal enterprises was also contacted to determine which public regulations were bent or ignored by the informal entrepreneurs. To manage conceptually and interpret correctly the extensive and sometimes complex information that was generated directly and indirectly from my conversations with the interviewees, I established contacts with individuals from various professional environments in Quetzaltenango. My non-entrepreneurial contacts and their organizational affiliations are listed in Appendix A, part 1.

It was decided that the assumed presence of ethnic networks and the extent to which the individual Maya entrepreneur used his ethnic environment for professional ends, would be determined solely on the basis of the individual's self-awareness of its presence and his conscious use of it. The same applied to the entrepreneur's perceptions of his own ethnic background. The techniques for mapping social networks are well established (Portes and Bach, 1985), but identification of the networks was not a goal of this study. It was satisfactory to have the hypothesis of their existence confirmed. Since other more important data were being asked for, particularly those that addressed the individual's private economy and his economic dispositions, background research on the individual entrepreneur's social environment was kept to a minimum to prevent unfortunate reactions. Basically, each entrepreneur's awareness of and willingness to inform about the use of his ethnicity in relation to his economic activity had to be trusted.

A rigorous control of the economic information I expected to get from the entrepreneurs was deemed crucial. I intended to match their general information with data I hoped to get from pointed by veiled questions directed at the running revenues and expenditures of the enterprise, i.e., production data, wages, raw material purchases, various operational costs, etc. Combined, this information would be used to make an assessment of the economic situation of each enterprise. Since the operation of an informal small enterprise interacts with the economy of the entrepreneur's household, the latter would have to be incorporate, as well. Even though a

household may have more than one source of income and not all transactions would be known in full, the approach would offer an enhanced degree of confidence in my data. Also, since wage outlays were assumed to be by far the largest operational expenditure of small informal enterprises (Watanabe, 1983:178), my conclusions would both add to and benefit from having a reference to a matured and extensive research on household subsistence strategies. As will be explained later, the study never reached the level of detail hoped for on this part. The reason was lack of proper accounting among the entrepreneurs themselves, but, more important, that most entrepreneurs responded with a consistent evasiveness, if not conscious disinformation, when their economy was put on the agenda. In retrospect, referring to the qualitative nature of the study, my failure to accomplish my goal on this matter proved to be of no importance for the over-all conclusions. However, as I gained experiences with my subject and my interviewing techniques were refined, I did succeed in extracting detailed information of the quality I initially had intended, on a sufficient number of enterprises. These data were used to assess the take-home earnings of some of the entrepreneurs and ultimately used in estimating the capital accumulation in the informal sector of Quetzaltenango.

The focus of this research was born out of the contradiction that the urban informal sector is widely perceived as a huge, heterogeneous mixture of marginalized actors operating in a sea of poverty, while, at the same time, some informal entrepreneurs operate small enterprises that implies prosperity and a certain degree of complex production. Some run sweatshops "underground" (Benería and Roldán, 1987:34), other run informal but extensive public transportation microenterprises (De Soto, 1989). In both cases - and in many more not mentioned - up-front investment and/or operational capital must have been needed to initiate and expand these operations up to their present levels. Undoubtedly, this capital must have been generated from the economic activity itself.

As mentioned, the academic literature, while offering data on the financing opportunities in the informal sector, more often than not in a sketchy way, pays no attention to the possible influence of ethnicity. In countries like Ecuador, Peru, Guatemala and Bolivia - all countries with a high proportion of indigenous people in their populations - those referred to as *indios, indigenas* or *naturales* are, as a group, situated solidly at the low end of the socioeconomic ladder. In addition to those mentioned above, one ambition of this study was to determine if the national ethnic stratification in Guatemala was translated into the informal sector. At a time when economic policies are designed to stimulate the economy of the informal sector and incorporate it into the national economy (Rakowski, 1994), this would have been an appropriate task given the data I expected to collect.

Addressing the many multifaceted research questions that arise from combining ethnicity and the economy of the informal sector did create a fairly complex agenda, as the discussion above makes clear. However, as will be explained in the following two sections, the site of this study, the city of Quetzaltenango, has economic and ethnic characteristics that would facilitate my research goals very well.

THE ENVIRONMENT OF QUETZALTENANGO

Before discussing the economic characteristics of the city of Quetzaltenango itself, it is necessary to describe the economic and ethnic setting of the city, i.e., both its immediate and extended environment. Guatemala is a small country between 13^{o} 30' and 17^{o} 30' N, slightly less in area than Cuba and only one third of Norway, i.e., 108,890 km^2. The region has a sizable Maya population. Roberts (1995: 142-3) states that US estimates of 1990 put the Maya proportion of the over-all population at 44 percent. Even at the low official 1994 census number of 42 percent (INE, 1996), it would mean that there are 4.8 million Mayans out of a national population of roughly 11.5 million inhabitants. Warren (1998: 8, 12), however, puts the number at 60.3 percent, representing close to seven million Mayans. These differences reflect inaccurate census data and differences in the definitions applied, but also the misuse of population data for political ends. Most recent studies I have read, including numerous estimates reported in the Guatemalan press, put the Maya proportion near to Warren's estimate. The latter will be used in the following.

One-third of the country's departments (primarily in the western highlands) have Maya majorities that range from 60.5 to 97.2 percent; one-third have roughly balanced numbers of Maya and non-Maya inhabitants; and one-third (primarily in the southeastern sections of the country) have non-Maya majorities of 66.4 to 99.2 percent (ibid.). As a comparison, the indigenous population of Mexico represents less than ten percent of the total. The Guatemalan republic as a whole has a rural-to-urban population of 65-to-35. The proportion of Mayans that live in the urban areas is 20.5 percent, while the number for Ladinos is 45.7 percent (INE, 1991). The population of Guatemala contains four distinct ethnic categories: the Maya, the Ladino, the Garifuna, and the Xinca. The last two are of insignificant size, comprising in total less than one percent of the population (Q'uq' Kumatz-Menmagua, 1999:19).

Nearly 80 percent of all Guatemalans are classified as "poor", while 59 percent are "extremely poor" and 20 percent are "not poor". (See comments to these terms in the section on definitions in the Introduction.) The poorest regions of Guatemala, without exceptions, are those with a majority of Maya population. Close to 90 percent of all Mayans are classified as "poor",

76 percent are “extremely poor”, and 10 percent are “not poor”. The numbers for the same categories for the Ladino part of the population are 74, 49 and 26 percent, respectively. The poverty is most significant in the rural areas where 87 percent of the population are poor and 71 percent lives in “extreme” poverty. In the urban areas, the same categories are 67 percent and 36 percent, respectively. Another poverty indicator is illiteracy. It is 68 percent among the Mayans, compared with 32 percent for the national population over-all.

The split between urban and rural population of the department of Quetzaltenango, a mostly agricultural region located in the western part of Guatemala, is 39.8 and 60.2 percent of the total population. It has an area of 1,951 km^2 (1.8 percent of the national area) and 504,000 inhabitants. The ratio between Ladinos and Mayans is 40-to-60, with 31.6 percent of the Mayans and 52.6 percent of the Ladinos living in the urban areas (INE, 1994). The complex picture of ethnicity and economy that characterizes the environment of the city of Quetzaltenango, as we will see, is to a large extent a feature of the city as well. To lay the groundwork for the later discussion, I will now focus on the economic aspects of the city of Quetzaltenango. I will comment upon the ethnic characteristics of the city in more length in Chapter 6 as part of the discussion on my research findings.

THE CITY OF QUETZALTENANGO

Studies of the urban informal sector have the last 10-15 years focused on survival strategies, types of informal activities, gender, households, legality aspects, case studies etc. (Portes et al., 1991; Tokman, 1992; Scott, 1995; Roberts, 1994; Rakowski, 1994). Only recently have the kind of work started by Benería and Roldán (1987), focusing on the interaction between the informal microenterprises and the formal sector, been followed up more consistently and seen in the light of public policies (Rakowski, 1994a). It was hoped that this study’s emphasis on the interaction between the informal market and ethnicity, would contribute as well as benefit from work carried out along those recent research trends. On one hand, the ethnic features of the department of Quetzaltenago, as discussed above, would seem to facilitate the ethnic objective of the study. On the other, the varied economy of the department’s capital, the city of Quetzaltenango with its immediate environment, would seem to support equally well the other main point on my agenda, i.e., my focus on the informal economy. As an informal economy reaches a more mature stage, as is the case in a city of Quetzaltenango’s size, one may hypothesize that increasingly more economic links will be established between the formal and the informal sector (Moser, 1978; Tokman, 1978). Attention to possible economic interrelationships between the formal and informal sector would therefore be a natural

consequence of this study. In the following, I will discuss why Quetzaltenango can be seen as having unique advantages as the site of my investigations, not only with respect to ethnicity as indicated above, but also with regard to the economic dimension.

El municipio de Quetzaltenango, the territory of the capital of the department of Quetzaltenango, comprising a densely urban and a large rural part, is the second largest city in the country with 108,000 inhabitants and has an area of 120 km^2 (INE, 1994). Quetzaltenango, the city itself, is located at 2,300 meters above sea level where the temperature may drop below freezing in the dry season (October - March). It is linked to Guatemala City, 210 km to the east (five hours by bus), by paved highway and by air. Quetzaltenango is a center for trade between the coast and the highlands and comprises a diversity of trades and commercial activities. Its four major *mercados* serve as trading posts for agricultural and artisan products brought in daily from numerous villages scattered in the rural landscape around the city. By the same token, the city fills the role as a major service center for the region. Leaving out the Spanish language schools - at the latest count, around 28, that cater to a young, international clientele - the 'gringo trail' of the tourists passes it by in spite of the presence of numerous "whaw!" attractions nearby, in addition to the colorful life in the streets and other features of the town. The proportion of Maya women in their colorful *trajes tipicos* is far higher than what is observed in other urban parts of Guatemala. The reason is the higher proportion of Mayans living in the city itself and the proximity with the rural Maya-dominated environment. More data of relevance to the city of Quetzaltenango are given in the discussion in Chapter 6.

As mentioned, it was expected that Quetzaltenango because of its economic importance would have a large, diversified, informal economy with ample possibilities for cross-links between the formal and informal sector. The first part of that assumption was verified shortly after the start of the fieldwork of this study. After a house-to-house survey in 1998, carried out by CUNOC *(Centro Universitario de Occidente, Quetzaltenango*), it was concluded that within the municipality of Quetzaltenango (including the rural area and the valley of Palajunoj and Chiquilajá) there existed 1785 productive microenterprises. Most, if not all of them, can best be labeled as belonging to the informal sector because of their size. In the survey, microenterprises were defined as productive workshops with five or less workers, including the owner (Vital, 1999). Main informal activities are shoe production and garment manufacturing of both traditional Maya dresses and a variety of regular clothes. Smaller but still important activities are equipment repair, wood products, food processing and numerous kinds of petty production. In addition to these so-called *productive* activities are the *commercial* activities - not part of this study - that, most likely, employ far more people than the first-mentioned ones. (Sr. Quemé,

President of ADEQ [*Asociación de Empresarios de Quetzaltenango*], private communication).

The city of Quetzaltenango has felt the impact of recent structural changes in the regional economy. Vital (1997) reports that the number of formal industrial enterprises within the so-called Region VI - the departments of Quetzaltenago, Totonicapán, Solalá, San Marcos, Retalhuleu and Suchitepéquez - fell from 269 in 1993 to 168 in 1997. Of the latter, 115 (68.4 percent) were fairly small with between 5 and 19 employees (ibid.: Table 3). This has been explained as the result of a trend towards a concentration of the production in fewer units and a capital flow from production and commerce to finance (source: Lic. Vital, private communication). The number of formal enterprises with more than 200 employees dropped from 10 to 6 in the same period. Most, if not all, of the large industries still operating, and many of the second largest industries of the region, are located in the city of Quetzaltenango. Among them are the very large industries like *Cervecería National* (brewery/soft drink producer), *Licorera La Nacional S.A.* (distillery), and a textile industry with a number of production units like *Fábrica El Zeppelin*, *Industrias Capuano*, and *Fábrica de Cantel*. *Cervecería National*, *Fábrica de Cantel* and *Fábrica El Zeppelin* were contacted as part of this study, due to their size and their position in the formal sector. My purpose was to familiarize myself with the various public regulations enterprises in the informal sector most likely would be in conflict with. Large, but a step behind in size, measured by work force, is *Xelapán* (a bakery with numerous shops), *Rosmo* (auto bodywork, coachwork), and *Vitra* and *Copavic* (glass blowing products). Another activity with a large influence on the city's formal economy is the construction industry that delivers private housing and office buildings and handles the urban road infrastructure.

However, only 12 percent of the formal enterprises in Guatemala's Region VI in 1997 generated employment for more than 50 workers. This indicates the reason for the low level of employment in the industrial sector in the region, as well as nationwide (ibid.). The economically active population (defined as seven years of age and above) of Region VI, comprising 764,751 persons, was in 1997 employed as follows: 62.9 percent in agriculture, mines and quarries; 11.3 percent in industry; 25.8 percent in construction and services (commerce, tourism, transport, finance, public administration and services, education and health). The small number of industrial formal enterprises in the city of Quetzaltenango, their size, and their relatively small work force warn that the initial assumption of a reasonably large number of formal enterprises subcontracting informal workshops, may not be valid.

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PART 1: THE BACKDROP

"I will give you an argument; I am not obliged to give you an understanding."
Samuel Johnson

CHAPTER ONE:

Browsing the Informal Sector

In the following I will give an introduction to what is known and what is debated about certain aspects of the informal sector that are important to this thesis. The former will address financial topics, particularly those related to the question on how loans are being raised by informal operators in times of hardship. The latter part will discuss subjects the findings of this study will add insight to, among them whether or not capital accumulation takes place, the wage structure and the kinds of interrelationships that take place between the informal and formal sector.

BACKGROUND

Since the term *informal sector* was first introduced in the early 1970s, its use has become commonplace. Moser (1994) mentions that the years from the 1970s and well into the 1980s were marked by studies that sought at various levels and in a diversity of contexts to define and describe the term. Today the definition proposed by Castells and Portes (1989:12), in a formulation slightly modified by Roberts (1995:116), is widely used. It says that the informal sector consists of "those enterprises that avoid state regulation, such as fiscal obligations and labor standards, in contexts where similar activities are so regulated". Unlawful activities fall outside. It should be emphasized that there is no such thing as *the* informal sector, but rather a complex and differentiated set of activities. Also, the distinction between the formal and informal sector is better understood as a continuum rather than a sharp break.

In spite of differences in definitions, estimation difficulties and variation in measurement methods used, it is widely agreed that the informal sector is significant in all developing countries, definitely with respect to the national employment but, perhaps, also to the national economy (Liedholm, 1994). De Oliveira and Roberts (1994: 61, 63) refer to studies that reported informal employment in Mexico in 1987 to be 33 percent of the total labor force, and similar numbers have been reported for a number of medium to large cities in Latin America for 1989. It is estimated that 42 percent of the Mexico's manufacturing labor force were working under informal employment conditions (Roberts, 1989: 48). Franks (1994: 93) refers to

his own unpublished data from 1989, based on numbers from twenty-nine countries. He concluded that forty-one percent of the urban economically active population was employed in the informal sector.

Using USAID data Prosigua (1998) reports that 35 percent of the total urban *and* rural economic active population in Guatemala were working in the informal sector, many of them in the country's 356,000 informal microenterprises that for the largest part were found in the rural areas. Of these enterprises 35 percent were within production, 52 percent in trade (commerce) and 13 percent in services. The percentages of informal employment in the three sectors were 50, 33 and 18 percent, respectively. Otero (1994:179) puts the number of informal *urban* microenterprises in Guatemala at 125,000, a number which is not in conflict with the estimate of Prosigua. These assessments are confirmed by studies of own-account workers and unpaid family workers in Latin America (Rosenbluth, 1994: Table 2). It is worth emphasizing that Prosigua's (1998) data support the suggestions made earlier by Roberts (1989) and others, that the size of the rural informal sector is relatively larger than the urban informal sector. In this context, size is measured in number of persons employed relative to the economically active population.

While much effort has been put into describing the life of individuals and families in the informal sector, very little is known about its economy. There is no much disagreement that the informal sector is associated with wide-spread poverty for the overwhelming majority of its members. A few voices, however, have challenged the solidly gloomy picture that dominates the understanding of the informal sector, implying that pockets of moderate prosperity do exist. For example, Tokman (1977) claims that the informal sector is economically efficient and has comparative advantages in relation to similar activities developed in the formal sector. His argument is that the use of second-hand machinery and obsolete technology, judged by the standard of the formal sector, require less capital per unit produced in comparison with the formal sector. In addition come the factors which define the sector as informal in the first place - reduced expenses on wages, working environment and public obligations. Thomas (1992) goes further and hypothesize that capital accumulation takes place.

HOW TO FINANCE AN INFORMAL ENTERPRISE

Considering the diversity and size of the informal sector and the obvious need for its operators to raise money for different necessities at one time or another, the lack of systematic studies on how actors in the informal sector raise funds for their financial short- and long-term needs is surprising. Capital may be required for situations spanning from the initial investment in a small

enterprise to unexpected expenses for maintaining its operation or to a situation with loss of income due to, say, accidents, a fine or sickness. In cases where these topics have been mentioned, they regularly have been subordinated other objectives (Watanabe, 1983; Benería and Roldán, 1987; Babb, 1989; Benería, 1989). I will discuss what has been reported in the literature on both the needs and the financing opportunities as a backdrop for later discussion of my findings on financing opportunities in the informal sector of Guatemala.

Financial Needs

Studies show that not all microenterprises need financial help and among those that get it, some have difficulties in meeting the lending obligations (Prosigua, 1998:4). However, that capital sometimes is crucial for the informal activities have been reported by a number of studies. Babb (1989:87) reported that a three-wheeled *triciclo*, used in Huaraz for transport, mostly by younger men, represented a basic investment of S/18,000 (at the time equivalent to $240) that most often either was raised as loan or received as a gift from the owner's parents. Starting a restaurant or shop would require S/40-50,000. As a reference, Babb (1989,28) mentions that manual market laborers, shoemakers and fruit sellers earned S/6,200, S/3,000 and S/900 per month, respectively. While the majority of women in the markets of Huaraz sold fruit and vegetables bought on credit, the men were more often engaged in the sale of manufactured products brought up from Lima, which required a larger capital outlay. Some of these goods were purchased on credit, but to begin such an activity before trust had been established, up-front capital for transport and other costs would normally be required.

Babb mentions that women occasionally would be engaged in selling locally produced items for the home that did not require significant capital, while men would control those sectors that demanded capital at hand. For example, the majority of the market sellers in Huaraz had had difficulties in raising the money required to meet their initial expenses, such as the cost of a knife, a scale, and a small chair to sit on - amounting to S/2-3,000. Petty traders would operate with no or small amount of their own savings, typically S/100-200. Actually, the lack of capital was the reason why they had no alternative but to work as retailers and why some were taking the risk of selling perishable items (Babb, 1989: 101, 112). Small-scale entrepreneurs normally worked close to the margins of profitability. In contrast, large-scale operators were often enmeshed in sophisticated networks of credit, marketing, and supply. Wholesalers who delivered fruit and vegetable to the markets of Huaraz, had at least S/10-20,000 in ready capital, in addition to what was invested in their trucks and storeroom. The situation Babb describes is not unique. De Soto (1989:108) reports from Lima that, initially, the informal transport

operators were able to use low-cost sedans that required fairly small investments. Later, economies of scale came into play and large investments were required for economic survival.

Babb's and De Soto's specific information not only identifies the prevailing need for capital in the informal sector for the start-up as well as for the operation of an enterprise, but also implies that ready cash indeed is available in the informal sector, often to a considerable extent.

Financial Sources

Even though no systematic studies have been carried out, the literature indicates that there exist numerous ways for the operators in the informal sector to raise capital, both in the informal and the formal sector. The following subsections will review what has been reported in the literature on the financial opportunities of the informal sector. The discussion in the last section of this chapter will address recent authoritative but unpublished data on lending pattern in the informal sector of Guatemala City.

Formal Loans

Formal loans refer to loans from banks and other traditional finance institutions. In Guatemala there is also a category of authorized moneylenders that offer loans, but at rates well above those of the traditional financial institutions (Prosigua, 1998). To my knowledge, Prosigua's report is the first publication that gives specifics on the relationship between the formal institutionalized lending market and the informal sector.

Lending is often associated with demands for some kind of collateral. De Soto (1989:24) gives an example on how this obstacle within the constraints of the informal sector. He compared two informal settlements, built adjacent to one another during the same period and inhabited by people of the same socio-economic characteristics. The only difference was that one property was legally classified as permanent and the other as removable. As a result the owner of the former was given access to formal loans by being able to use his property as collateral and, consequently, the value of a typical dwelling, including the land, in the legally secure settlement was nine times larger than one in the other settlement.

The urban informal sector is often perceived as a huge, heterogeneous mixture of marginalized actors. A study from Mexico from 1987-88 described the informal sector as one with few links to the formal finance sector and with little appreciable capital. Less than one percent of the microenterprises used bank or other formal credits (De Oliveira and Roberts, 1994: 64). Another study from 1987 from Lima, indicated that informals did not receive much

credit from the formal financial system. Ninety-one percent of informals had not obtained any credit and an additional 2.6 percent had obtained credit of less than $10. Of those who had obtained loans, only 5.6 percent received loans from commercial banks and 6.3 percent from state banks, whereas 41.7 percent obtained loans from parents or friends (Thomas, 1992:287). Wormald and Rozas (1996: 70-1), however, came to a very different conclusion in their study of microenterprises in Santiago, Chile. Their data indicated that twenty-seven percent of the contacted microentrepreneurs had applied for financing in banks or other financial institutions. Seventy percent of these had obtained loans or credit. A number of the interviewees expressed that they thought had a higher likelihood of obtaining a loan for their enterprise from a state bank, in this case *Banco del Estado de Chile*, than from any private commercial institution or even from friends or relatives. The authors conclude that access to credit was limited less by the difficulties and formalities imposed by the various financial entities - among them demand for collateral. More important was a preference among informal entrepreneurs to remain outside the system, primarily due to fear of indebtedness or unfamiliarity with the formal institutions. What stands out in a comparison between the findings of these studies, besides the divergence in the authors' conclusions, is the fact that they were carried out at different times and in different countries. The debate how to stimulate the informal sector and whether or not informal operators should be given access to the formal financial market, is probably not more than 10-15 years old and the views and proposals that followed were implemented at differently from country to country. Neoliberalistic economic policies took hold and reached the urban poor much earlier and on a broader front in, say, Chile than in Mexico as a comparison of the studies on housing policies in the two countries by Rojas and Greene (1995) and Ward (1990) will carry witness to. The conflicting conclusions mentioned above may reflect not only a variation from country to country but also the effect over time of economic priorities in the international community. The impact of this temporal perspective, i.e., the change in economic policies that has taken place over the last decades in Latin America, should be kept in mind when I later will identify contradictions between the concrete findings of my investigations and the conclusions or assumptions of older studies. Another cause for variation is that the burden put on the informal sector differs from country to country, as Tokman and Klein (1996:2) point out. They state that in Bolivia and Chile the financial costs are, relatively speaking, not high, while in Guatemala, Peru and Mexico, they are significant. Sometimes the restrictions the authorities keep operators of the informal sector out of the formal financial market all together (Franks, 1994).

The degree of financial interrelationships between the formal and the informal sector

varies greatly from country to country. Tokman and Klein (1996:20) show that the contacts between the informal microenterprises and the large formal establishments were relatively more extensive in Chile and Ecuador than in Jamaica. Almost one-third of the informal enterprises they contacted bought wholesale in all the three countries, possibly indicating a stable access to capital or the availability of credit agreements. Buying from wholesalers or the industry directly reflects a more advanced degree of linkage than purchasing from retailers or asking clients themselves to provide the inputs for the production of the goods of the enterprise.

Semi-Formal Loans

Semi-formal loans refer to loans given by international NGOs and "improvised" or less established finance institutions, as well as different types of financial cooperations. They do not incorporate loans from the type of national NGOs of Guatemala that will be discussed in Part 2.

Thomas (1990) mentions that Grameen Bank, started in Bangladesh, has operated in Peru with success, offering micro-loans to the poor at market interest rates. He uses this and other examples to support his argument that it is not necessary to subsidize credit because people are poor (ibid.: 289). The point does not reflect hardheartedness, but sound economic sense. As De Soto (1987) also argues, the informal operators need neither welfare not the patronizing support of victimizing views; they need working conditions, safeguarded through legislation, that put them on equal footing with actors in the formal sector. Special arrangements often put the informal operators at the mercy of conditions outside their control when the political wind changes.

For traditional finance institutions, like banks and non-banking financing houses, demand on profit rate and administrative costs for small loans is usually too high to make the informal sector an attractive market on a strictly commercial basis. The costs of evaluating projects and assessing creditworthiness pull the same way. However, loans targeting the informal sector and administered by third party, is a form that is widely used by international aid organizations. Otero (1994:182) reports that USAID had $75 million earmarked for lending to microenterprises for the fiscal year of 1990, and that the Inter-American Development Bank (IDB) the same year initiated its own program for support of microenterprises with nearly $500 million earmarked for micro-loans over a five-years period. The problems facing an outsider, however, trying to reach out with micro-loans to myriad small enterprises, are obvious. NGOs have frequently been mentioned as a possible source of micro-loans to the informal sector, but normally they have limited structural and technical capacity, among other shortcomings, to do an effective job (ibid.: 193-4). Wormald and Rozas (1996:76) did not see NGOs as an integral

assistance resource, and Thomas (1992) states that credit programs operated by the NGOs have had a mixed record. However, the experiences of NGOs show that the problems of transaction costs and risk of default on loans can be reduced in a variety of ways. Since the NGOs are the source for much hope that there are ways to alleviate the need for capital in the informal sector, this topic was raised with the interviewees of this study.

A privately generated saving scheme to handle unexpected expenses is reported by Ward (1986: 6) from Mexico. Some households belong to an informal credit system in which an agreed sum is contributed, say, weekly, and each household takes turns to receive the pooled amount. Ward saw this system as a strategy to overcome unexpected crises in the family. One may speculate whether a similar scheme could serve equally well among small enterprises to help maintain the operation in times of hardship. The rotating credit associations that are organized through community-based organizations and kinship associations, known from China and later carried over to United States by immigrants (Wong, 1998), do not seem to exist in Latin America.

Informal Loans/Credits

Babb (1989) reports from Huaraz, Peru, that having access to credit or short-term loans was essential to small vendors and marketers throughout their careers since their business rarely grew. It was particularly important during the start-up phase. In most of the cases she documents credit meant payment delayed some hours or a few days. She notes that several marketwomen working alone selling staples had difficulties because some wholesalers demanded payment at delivery and was not willing to delay payment until their clients had had time to sell their goods. Personal loans from family or friends were often a new seller's only mean of entering the market place (ibid.: 76, 103). In Babb's observations there existed none of the elaborate savings and credit associations that have been observed in markets in Africa and Asia that Hart (1970) mentions or the type Ward (1986) refers to in Mexico.

Access to short-term credit smoothes out some of the difficulties for those who work daily at the economic margin. One incentive for the street vendors who moved into the first informal markets in Lima in 1950 - besides generating more profits by sales of scale - was to obtain credit from their suppliers in recognition of their special rights of ownership to a market stall (De Soto, 1989:79). The initiatives to raise capital are often quite imaginative. One example is informals without capital, organized within an association of their own, who successfully negotiated a deal with a foreign company on delivery of one hundred bus chassis. In another case, again in dealing with a foreign company, the informals put up their informal

housing as collateral for the purchase of new busses (ibid.: 118, 121).

In the 1970s and 1980s, many public programs offered technical assistance and training to established microentrepreneurs and followed up with credit and business extension services when certain conditions were met (McKean, 1994:202). Similar schemes have been mentioned by other investigators, but to which extent these have been successful and are viable in a wider context is not known. Benería (1989:176), in her study of production chains in Mexico City, seems to indicate, without giving details, one unique financing possibility: a formal firm that sets up, through loan or credit, an informal shop to do the initial steps of its production "underground". Cases where the formal enterprise lays off its workers and subcontracts its production to informal workshops is well-known (Portes, 1989; Rodgers, 1989).

Savings

Prosigua (1998) reports from Guatemala that savings play a major role in the start-up of an enterprise, see Table 1.1. That alone is an indication that at least some operators in the informal sector have opportunities to put capital aside for future investments or a rainy day. However, the ways by which poor people handle unexpected crises in their families, may equally well be used to save money for a projected undertaking or to combat economic setbacks in an already operationally microenterprise. Ward (1986:6) lists four broad strategies used among the poor to overcome economic difficulties in a household. Some of them could possibly be used to start up or make a microenterprise weather bad times. The first, is that ongoing living patterns would be cut back or canceled, that is, children would drop out of school and take on some kind of employment; people stay ill and leave physical complaints untreated; and the normal diet may be replaced by cheaper but less nutritious substitutes. Secondly, households may be extended by the inclusion of outside relatives. Extended family structures offer greater security since more members are likely to be engaged in paid employment and, say, can organize mutual child care that allow more adults to work outside the home. Multiple employment strategies in both nuclear and extended households frequently aim to ensure that members are represented in both the formal and the informal sector, thereby enjoying the benefits of both. Thirdly, the poor may seek support from a wider social network that embraces kinsmen, friends, peers and neighbors. And, finally, one's employer might be an important source of protection through patronage. This help usually takes the form of a loan or cash handouts.

Miscellaneous

Other ways to raise capital are sale of household possessions; family remittances, say, from

members abroad, inheritance, and retirement money.

INFORMAL INCOMES

It has been mentioned that wages are the largest operational expenditure of a small enterprise (Watanabe, 1983: 178). The academic literature indicates that mapping the earnings in the informal sector is not a simple matter. The instances that have been reported, identify mostly isolated single person and, more seldom, group cases, often street vendors and others who represent the visible part of the informal sector (Babb, 1989; De Soto, 1989). Missing are data on those who work within the sophisticated production, credit, marketing, and supply networks behind the surface. At the moment it is therefore not possible to make assessments of the *structure* of earnings in the informal sector in a given region and determine whether that insight could be generalized to describe the situation also in other places. I will briefly mention efforts that have been done, again with the later discussion of my own findings in mind.

De Soto (1989: 61) estimate that on the average the net per-capita income from street vending in Lima was $58 per month. That was 38 percent more than the minimum legal wage at the time of the sampling. Unfortunately, De Soto did not discuss how representative the "minimum legal wage" was in the formal sector. Cartaya (1994: 223) reports that a large proportion of industrial (formal) workers receive incomes at or below the poverty level, while a significant number of successful informal entrepreneurs have high incomes, though, without the benefits or opportunities available to employees of formal firms. A more composite picture of the informal sector is offered by Fortuna and Prates (1991). They argue that informality is not necessarily synonymous with poverty and marginality. The relative success and 'satisfactory earnings' [Fortuna and Prates' characteristic] derived from informal activities in various forms of self-employment and small family microenterprises, surpass, in some cases, the levels achieved by workers in the formal sector. Within an overall picture of hardship and struggling survival experienced by the majority in the informal sector, one finds economic differentiation that allows individuals to achieve success (Roberts, 1995: 126; see references in Babb, 1989: 47, 50).

Portes and Schauffler (1993: 172) report that microentrepreneurs, representing 6-9 percent of the employed labor force in the informal sector of the cities they studied, was the best paid group. This trend is supported by studies from Mexico. Roberts (1995: 132) indicates that, on the average, small-scale entrepreneurs and the self-employed earn the highest income, but differentiation prevails. Small-scale entrepreneurs earn three times more than their workers and fifty percent more than the self-employed. None of these reports distinguish between productive

and commercial enterprises. Other studies signal that there is a large variation among different economic sectors. A relatively small numbers of wholesalers in the markets of Huaraz, Peru, earned high profits, but, in contrast, most small marketers had pitiful incomes (Babb, 1989).

Not unexpectedly, conditions vary from country to country. For example, a number of studies listed by De Oliveira and Roberts (1994:58) conclude that, by the 1970s in Mexico, there were only marginal differences in wages of informal and formal workers. Staudt (1998: figure 2) reports on income distributions of informal workers in Mexico from 1988 in municipalities of 100,000 or more inhabitants. Using full-time legal minimum wage (LMW) - in Mexico in 1992 equal to $30 per week - 13 percent was unpaid, 36 percent earned up to one LMW, 32 percent earned 1-2 LMW, and 13 percent were above 2 LMW (six percent were unspecified). The corresponding percentages for formal workers were 8, 13, 55, and 24 percent (nil percent unspecified). For some, these numbers might indicate a possible surplus for use outside the bare survival if need be.

In their study in Santiago, Chile, Wormald and Rozas (1996:65) report that workers with the lowest registered wages were those working in the garment industry. Of the total number of persons interviewed in this sector, sixty percent declared earnings of less than two LMW. Among the four sectors of economic activity they had studied - garment manufacture, equipment repair, furniture/wood products and food processing - the sector of equipment repair offered a distinctly higher wage and income stability. The authors report also a clear trend toward an increasingly favorable wage situation as the size of the informal enterprise became larger (ibid.: 66). The changing character of the relations of production in the informal sector, as well as their complexity, is underscored by the data of Fortuna and Prates (1989). The authors also indicate that a transfer of activities from the formal to the informal sector are not uncommon.

CAPITAL ACCUMULATION IN THE INFORMAL SECTOR

Even though economic units in the informal sector orient themselves towards a logic of accumulation, in practice, their activities are enmeshed in a logic of subsistence and economic survival. From this comes the central dominating feature of informality - its heterogeneity. Street vendors and unregistered market selling are only the tip of the iceberg. Beneath the surface are sophisticated networks of informal wholesalers, suppliers, service industries, and a diverse manufacturing sector I have alluded to earlier, crossing the hazy zone between the formal and informal sector. Rosenbluth (1994) emphasizes a point that often seems to be forgotten when the informal sector is discussed and that has bearing on this study: that people in

the informal sector is poor does not mean that all members of this sector are poor. One implication might be, that even if the informal sector gives the impression of offering few or no opportunities for capital accumulation, as some authors claim, its heterogeneity implies that it is difficult to generalize.

Thomas (1992:287) claims that accumulation indeed takes place. He states that while parts of it undoubtedly are for the rainy days and are short-term or sporadic in nature, other parts are intended to build up capital, supposedly for investment. However, the economic circumstances of the informal sector, in general, are not inviting. Rosenbluth (1994) points out that the poverty rate is higher in the activity sectors of the informal sector than in the formal wage-earning ones. The official poverty rate among the informal occupations ranged from ten percent among own-account workers in commerce/services in Mexico to fifty-three percent for domestic employment in Brazil. The poverty rate among informal wage-earners ranged from eight percent in commerce/services in Uruguay to thirty-three percent in manufacturing and construction in Mexico (ibid.: Table 7).

Hart (1970), in his well-known study from Ghana, claims that the economic surplus generated in the informal sector is reinvested within the sector or channeled into an informal financial system - a network also Babb (1989: 103) refers to - usually at high rates of interest. Personal savings are small, though there is disagreement about this. With exception of the aforementioned saving scheme Ward (1986) referred to in Mexico, similar schemes have not been reported in Latin America. As long as the literature has not reported data that can resolve the discussion whether or not capital accumulation takes place or, eventually, under which conditions it happens, it is premature to contemplate where a possible surplus would go. Both topics, however, will be discussed in light of the findings of this study.

A special case of capital accumulation is the increase in the value of *favela* housing in Rio de Janeiro that was valued to more than $50 million as of June 1966 (Tokman, 1977: 3). One may speculate whether capital has been raised by selling initially informal housing that has increased in value over time, and has been applied - after having acquired cheaper living quarter another place - as start-up capital in a small enterprise. A similar case is De Soto's (1989) data from Lima. He mentions that the replacement cost of informal housing in Lima in 1982, which, at the time, comprised 43 percent of all the housing, was calculated to $8,300 million.

The estimation of a possible capital accumulation in the individual enterprise or in enterprises of certain trades is difficult. However, common sense indicates that it takes place, if only because of the magnitude and heterogeneity of the informal sector. De Soto (1989) claims that 91,000 street vendors in Lima supported an estimated 314,000 people and generated gross

sales of $322 million per year. In transport, informal entrepreneurs controlled over 90 percent of urban public buses. The 1984 replacement value of their fleet was estimated at $620 million. The value of the related infrastructure (gas pumps, repair shops, etc.) was estimated to $400 million. The recent report of Prosigua (1998) from Guatemala also take for granted that capital accumulation takes places, though, without giving either hard numbers or estimates. The report divides the informal microenterprises of less than five workers, rural and urban combined, into three groups. The first group, 50 percent of the total, comprises microenterprises that work on subsistence level and barely can pay the wages of its employees. The second group, 30 percent of the total, have a scant possibility for capital accumulation, but satisfies the needs of the entrepreneur and reproduces the activities at the same level. And the last group, 20 percent, has good possibilities for generating capital. Prosigua gives no indication of which factors condition the last case.

Initially, this study had as one of its assumptions that some capital accumulation indeed took place in the informal sector, but that it was slow and was present more in certain activity sectors than in others, more in certain regions than in others, that it was far from ubiquitous where it existed, and that lasting success was not assured. When capital indeed is accumulated it is most likely invested in upgrading machinery and tools, similar to what Hart (1970) reports from Africa. Using the findings of this study, the topic of capital accumulation will be given extensive treatment in Chapter 4.

INTERRELATIONSHIPS BETWEEN FORMAL AND INFORMAL SECTOR

The interrelationships between the formal and informal sector takes primarily two forms, *either* as lending by formal institutions to individuals in the informal sector *or* as subcontracting of production. The former was discussed above and will be expanded upon as part of the discussion of recent data from Guatemala acquired in preparations for this study. The latter, on subcontracting, is discussed in the following.

Subcontracting

It has been claimed that the economy of the informal sector primarily is directed towards trade and services; production does occur, but it is confined to labor-intensive goods due to the low levels of investments in capital equipment that typifies informality (Pásara, 1989). My study concludes that it is necessary to distinguish between productive and commercial enterprises in the informal sector. Before the economic significance of both categories have been estimated and compared, there is no way to assess Pásara's claim.

In another study from Santiago, Chile, the principal clientele of the microenterprises was found to be primarily individual consumers. Clients from formal large-to-medium factories and small firms, represented each only fifteen percent of the clientele. The interaction between the formal and the informal sector changed over time, but not in any linear fashion nor in the same direction in all places (Wormald and Rozas, 1996:73). Fortuna and Prates (1989:84), however, found a high use of informal subcontracting or outfarming within different kinds of formal manufacturing, more than reported earlier. Only one in seven of the formal firms they approached did not resort to subcontracting. The other six used homeworkers in proportions that fluctuated between ten and fifty percent of their total labor force. The studies by Fortuna and Prates (1989) in Montevideo and by Birkbeck (1978) in Cali document how informal garbage collectors were actually disguised workers for large industries, supplying these with significant quantities of recycled and sorted garbage. The collectors sold the product to informal deposit owners who, in turn, passed the product to wholesalers that supplied the large orders of industrial firms. The firms dictated the final price on recyclables, while each intermediary along the chain took his cut. Benería (1989), in her study of production chains in Mexico, found a large proportion of vertical subcontracting among formal enterprises in different sectors of activity, using informal homeworkers. Half of the sixty-seven firms she contacted used subcontracting.

The contradictory conclusions among different studies could be due to the clandestine nature of outfarming factory work and therefore difficulties in disclosing the true nature of the situation, or it could be due to different circumstances from one place to another. The conclusion of De Pardo et al. (1989) from their study in Bogatá, indicates the latter. However, the discrepancies could also be explained by the difficulties in getting economic data to build the conclusion on and therefore, ultimately, on the methodology being applied.

Benería and Roldán (1987: chap. 3) raise a number of important topics in their discussion of the mechanics of subcontracting. Their sample of firms allowed them to illustrate connections among different productive units ranging from the piecework carried out in the household to small workshops, middle-size factories and large national and multinational firms. The authors report that lowering of the labor costs was the most important reason given by firms that involved themselves in subcontracting to informals. As the most basic parts, produced by informal homeworkers, moved up the production chain and increasingly got assembled into the final product at a higher level in the formal domain, the largest increase in wages from one level to the next was observed as the chain crossed over from being informal to be formal. It has been argued that this is because productivity is lower where informal subcontracting work takes

place (ibid.). For that part of the informal sector that employs homeworkers, this is not necessarily true. For the client to have control over his costs, the homeworker is paid by the number of units he or she produces, not by the time spent on doing the work. Productivity among homeworkers, therefore, is not a factor. However, the argument may be flawed for another reason, as well - it may be wrong. Fortuna and Prates (1991:84) studied footwear manufacturing in Uruguay. They found that the skill of homeworkers, and the piece-rate system by which they were paid, led to *higher* levels of productivity. Homeworkers, most of them women, consistently surpassed factory workers in units produced per time unit. The authors argued that the reason for the difference was the higher motivation among homeworkers. They would earn more money the faster they worked, while the factory worker had a fixed salary. Productivity in the informal sector is a far more important topic than what the low number of studies dedicated to it may imply. It has bearing on a number of the factors already addressed in the previous discussion - among them the possibility of capital accumulation and exploitation of the work force, but, surprisingly enough (according to my data), only conditionally on labor wages. For these reasons the topic will be discussed in some length in Chapter 5.

According to Benería and Roldán (1987:38), a number of other reasons, besides labor costs, are involved when the initial part of a multi-level production chain is outfarmed to the informal sector by a formal enterprise. First, production of parts is highly specialized and can be obtained at a lower cost by those firms that concentrate on few products. The question may arise in a formal production unit if the internal production of a relatively small number of subparts can justify the investment in new equipment. Secondly, in cases where the production is unstable or seasonal, subcontracting means transferring the problems of a future reduction in demand or temporary increases in production to another party, i.e., the homeworker or the informal workshop. Thirdly, in situations where the technical competence or resources are limited and where managerial problems getting out of hand can become costly, the avoidance of growth is a way of keeping control of the enterprise. In the latter case, the larger visibility with respect to the authorities, as a result of more activity, may also plays in. And, finally, subcontracting can prevent internal labor conflicts and the demand for unionization. In Mexico, at the time of the study, small firms with more than twenty employees were required by law to unionize (ibid.: 38-39).

Fortuna and Prates (1989) report that all the firms they contacted which used homeworkers, between 1975 and 1978 applied machinery of high technological sophistication. The average age of the equipment was not more than ten years. From the authors' comparison of productivities of the factory worker and the homeworker, it seems that the homeworker must

have had access to machinery of the same efficiency as that of the factory worker, either on loan, by renting or purchase. If this is widely the case, the assumption that homeworkers - or, perhaps, informals in general - always should be associated with outdated or low-productivity tools in comparison with those used in the formal sector, needs modification. The findings of this study indicate that the conception should be changed. I will address the theme from a somewhat different angle later.

Formal Lending In The Informal Sector (Guatemala, 1997)

Unfortunately, the literature offers no specific information on the loan accessibility and lending conditions of loans given by the formal sector to the informal sector. This topic, therefore, will be addressed in some detail in Chapter 5 where I discuss my observations. In preparations for the fieldwork of this study, unpublished but authoritative information from 1997 on lending pattern in the informal sector and the lending conditions of state and private banks, traditional finance institutions and private money lenders in Guatemala City was received from Guatemala (Prosigua, 1998). As shown above, the academic literature is sketchy in its reporting on the needs for financial support within the informal sector and to which extent different opportunities are available and how these are being used. Prosigua (1998: 6) refers to data on the financing of microenterprises (here defined as workshops of five or fewer workers) in different activity areas. The data are given in Table 1.1.

Table 1.1
Lending pattern in the informal sector in Guatemala, 1997.
(Prosigua, 1998).

SOURCE	INITIAL CAPITAL			OPERATIONAL CAPITAL		
	Trade	Manu-facture	Services	Trade	Manu-facture	Services
Savings	49.0	61.0	49.5	24.5	27.0	32.0
Loans from family, friends	22.5	12.0	16.5	0.0	4.0	4.0
Loans from NGOs and financial *cooperativas*	22.5	19.0	24.0	57.0	53.0	51.0
Loans from banks	3.0	2.0	3.5	6.5	2.5	3.0
Individual money-lenders	3.0	1.0	0.0	0.0	2.0	0.0
Other sources*	0.0	2.0	3.0	0.0	1.5	1.0
No response	0.0	3.0	3.5	12.0	10.0	9.0

* Sale of household possessions; family remittances; inheritance; and retirement money.

Table 1.1 shows that microenterprises need capital both at start-up and during operation as was

hypothesized earlier. While savings and loans from family and friends - the latter only initially - are important financial sources, banks and traditional lending institutions play a near to insignificant role. (The term *traditional institutions* will be used to distinguish the lending, but non-banking institutions, from the national NGOs I will discuss in detail in later chapters.) The interest rates in private and state banks were in 1997 20-22 percent per year, with state banks in the low end, and those of the traditional institutions up to 3-5 percent *monthly*. Authorized moneylenders charged even higher interest rates. Very important are the so-called NGOs and *cooperativas* (cooperatives). They play an even more crucial role today, and I will describe them in Chapter 5. From Prosigua's data, combined they rank second only to savings as a source of raising capital for an enterprise during the start-up period and dominate in the later operative phase. Unfortunately, Prosigua (1998) offers no information on the lending conditions of the national NGOs and the *cooperativas*. My data on the lending situation in Quetzaltenango in mid-1999, which differ from those of Prosigua's report, will be discussed later.

Building on the observations of Prosigua (1998), one may hypothesize that the need for initial capital, particularly in manufacture, refers to high initial investments in machinery. The entrance ticket to start one's own productive enterprise and to keep indebtedness to a minimum, is to raise as much as possible of the capital from one's own sources. The lower cost of starting an enterprise of trade, permits a higher indebtedness, which the numbers of Table 1.1 also reflects. However, as time passes by, the contributions from family and friends dry up and the entrepreneur has to rely on the income of his enterprise, while the bulk of his needs for operational capital are funded by loans.

COMMENTS

The literature makes clear that the operators in the informal sector have numerous ways at their disposal to raise capital for the start-up and operation of their enterprises. This is confirmed for Guatemala by the data of Prosigua (1998) given in Table 1.1. Very little is known, however, under which circumstances, how frequently and to what extent these sources are being used, which conditions - security, collateral, repayment schedule etc. - are in effect, the amounts of money involved and other pertinent information. Also, it is worth noting that no study has tried to estimate how much capital is tied up in machinery, tools and other kinds of technical means in the different activities of the informal sector, nor has anyone tried to estimate what the running need for capital is, say, on an annual basis. Prosigua (1998) does not give specific numbers for the amount of capital being transferred to the informal sector in the form of loans, but its argument seems to indicate that the hesitancy among informals to use the formal

financial institutions reported by Wormald and Rozas (1996), mentioned above, is not a factor in Guatemala City. That observation is confirmed by the data of this study (see Chapter 5).

The academic literature does report on earnings of workers and entrepreneurs in the informal sector. The data are unsystematic and offer not much help if one tries to use them to identify the salary structure of the informal sector, either within one economic sector or in a comparison among sectors. With very few exceptions the scope of the numbers on salaries given are limited to specific places with no references to the regional and national situation and the discussion seldom links the observations to the wage structure of the formal sector. It is clear that there exists considerable disagreement among the scholars whether or not a noticeable capital accumulation takes place in the informal sector. At the same time, numerous authors have reported on small informal specialized workshops, which - one may assume - must have a relatively significant capital invested in the form of tools, machinery and housing. It is safe to assume that the capital behind must have been generated over time by the operation of those workshops. On the extent of interrelationship between the formal and informal sector and to which extent this takes place, disagreements prevail, though the trend seems to be towards a stand that the interaction is more extensive than previously perceived. On the particular features of this aspect of the informal sector, say, the degree of productivity differences between formal factory workers and homeworkers or between formal and informal workers in general, not much is known. A characterizing feature of the debate on the aforementioned aspects of the informal sector, even when countries with a high proportion of indigenous population are being studied - like Peru, Bolivia, Ecuador and Guatemala - is that the relationship to ethnicity has not been considered. In preparation for the later discussion the conceptual aspects of ethnicity and their practical consequences with respect to Guatemala will be discussed.

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CHAPTER TWO:
Dissecting 'Ethnicity'

The objectives of this thesis focus on the combination of two subjects - the informal sector and ethnicity. The former was discussed in the previous chapter. In the following, the meaning and implications of the concept of ethnicity will be considered. This discussion will lead into a discussion on the practicalities of ethnicity as an upcoming political ideology among Mayans in the Guatemalan society, particularly how an ethnic consciousness is being produced (the word is used on purpose). In the final section, I will briefly comment upon a study from 1969 on ethnicity in Quetzaltenango, the site of this study, to add specific insight on the relationship between the two population groups of that city.

BACKGROUND

The multi-national Guatemalan society invites for questions like: what is ethnicity and what determines a person's ethnicity in the eyes of an individual and others? What gives a group of same-ethnic persons an ethnic identity up towards an other-ethnic environment in spite of internal differences within the ethnic group? And how does major political changes, as one has seen in Guatemala over the last fifteen years, create a climate whereby same-ethnic people identify with each other through their ethnicity and moves towards being a (ethnic) nation within the state-nation? The fieldwork related to this study - in the form of conversations with persons directly and indirectly related to its main focus - has made clear that the topic of ethnicity is a painful theme in present-day Guatemala, creating responses ranging from vehement denial that Guatemala is a multi-ethnic state, ignoring even the Garífunas and the Xincas, to positions of individuals who keep their contacts with the other main ethnic group to a minimum.

ETHNICITY AND THE INDIVIDUAL

A central proposition about multi-ethnic societies, is that if a group's demands reasonably can be linked to the group's ethnic manifestations, its demands have, under otherwise equal conditions, a stronger and more effective - but also a more provocative - appeal. I believe that this proposition captures a universal truth in the political climate of today, without implying that such demands always are brought to a successful conclusion. From this I deduce the corollary that if a notable part of the population of a ethnically homogeneous state is replaced with a

population of a different ethnicity, other factors kept constant, that society as a whole will behave in ways that it did not do earlier. If the ethnic group becomes aware of what it perceives as its ethnic distinctiveness and promotes this in a political context, two conditions follow. First, some will rise to the top of that community and establish themselves as an elite. That conclusion follows from Mosca's (1939:50) famous observation that "In all societies (...) two classes appear - a class that rules and a class that is ruled.". And, second, a tension - dormant or active - will exist between the rising elite of the ethnic community and the entrenched elite of the society as a whole, because of their different interests. To better understand the effect of ethnicity in practice, I will in this and the following sections develop reasons why this is so, under which conditions this scenario will happen and what may follow. I start on the level of individuals, before a *body* of individuals has acquired a focus of its own.

The reason why demands linked to ethnic manifestations transcends normal limits, is the widely accepted view that identifying qualities rooted in a person's ethnicity are regarded as being of uttermost importance to the individual's existential self, with respect to both time (history) and space (environment, community). This realization, however, is a recent phenomenon. For only decades ago, a conflict between the dominating society and an ethnic community aspiring for recognition, was contained with brutal repression (for example, the Turkish attack on the Armenians 1910-20); by forcefully denying the existence of the challenge (Norway's treatment of its Laps up to the 1970s and of its gypsies from 1950s to the 1970s); by forced or voluntary assimilation (the German Jews before 1933); or by institutional schemes (as in Sovjet Union up to 1989). While there are signs that may indicate that these types of *politically manipulative* remedies increasingly belong to the past, extreme *violent* measures, like ethnic cleansing (Rwanda 1997, Kosovo 1999) and ethnic dilution (Tibet and Xingyiang ongoing), continue to be applied where ethnic populations collide or political goals of the dominating ethnic nation are challenged by the presence of less powerful other-ethnic communities - minorities or majorities.

Connor (1994:40) defines an ethnic community as "a social group which shares a common ideology, common institutions and customs, and a sense of homogeneity". The advantage of this definition is that it emphasizes the essence rather than the overt manifestations of the group. The essence of the ethnic community is not tangible; it is psychological, a matter of attitude among the community members rather than of facts. The definition points at another crucial characteristic, as well. A prerequisite of belonging to an ethnic community is the popularly held awareness or belief that one's community is unique in some vital sense - not necessarily superior, but different. Adams (1995:59-82) discusses different theories on what

this uniqueness may be and promotes the hypothesis of a common ancestry. Up against that stands Popper's famous statement that a race is a collection of men united not by their origin, but by a common error in regard to their origin (Popper, 1945).

By giving the community to which one has decided to belong a unique value, one has given oneself a share in the importance one associates with that group through one's membership in and allegiance to the group. In fact, often the individual's own existential identity, as he sees it, is closely associated with that of his group. In the absence of such a conviction, the group is only a sample of individuals. A lack of recognition of one's chosen group from the larger community becomes a lack of recognition of oneself, a threat to one's self-image. This may in part explain the fervor of ethnic struggles. Ultimately, it is not *what* is, but *what people believe* is, that is important. What people perceive is what influences attitudes and behavior. Because the essence of the community is a matter of the attitude of its members, the tangible manifestations of cultural distinctiveness are significant only to the degree that they contribute to the *sense* of uniqueness among the members. A subconscious belief in the group's unique origin and evolution becomes an important ingredient of national psychology. It is the psychological bond, rooted in the idea about themselves, that joins persons of the community together and, in their subconscious conviction, differentiates them from all non-members (Connor, 1994:42). Huntington (1996) claims that in the post-Cold War world, the most important distinctions among peoples are not ideological, political, or economic; they are cultural. In many contexts, that means the effects of ethnicity. Addressing the national arena, Brown (1998) suggests that nation-states have been weakened by the failure of the nation-state elites to deliver the promised social justice community, the nation. The inequities of development have exacerbated the need of individuals for an imagined community that could provide a sense of identity, security and authority, and the ethnic community in many regions is increasingly replacing the state in this role. People - and among them members of an ethnic group, with their consciousness of otherness - define themselves in terms of ancestry, religion, language, values, cultural heritage, history, behavioral patterns, institutions and different beliefs, which distinguish them from other members of the larger society. They identify with cultural groups: tribes, ethnic groups, religious communities, nations. And people use politics not just to advance their interests but also to define their identity. We know who we are only when we know who we are not and often only when we know whom we are against (ibid.: 21).

No group of some size, however, is a homogenous body. Different attributes, grades of attributes and the relevance each has within the different segments of, say, the indigenous group, combined with the subjective goals of each segment, result in a fragmentation of the group into

competing factions. Each segment's understanding of itself and its relation to other segments and to the group as a whole, however, is subordinate to its idea of its uniqueness in relation to that of the other-ethnic society. This applies very well to the Guatemalan case with respect to the Mayans. But since the attributes of the ethnic group, as well as those of its individual segments, as they are understood by the members, are psychological and not tangible, they can be created and they can be dismantled, as their importance and usefulness change. This is why ethnicity ultimately is politics.

THE POLITICS OF ETHNICITY

An objective definition of ethnicity assumes that there is some distinguishing feature that clearly separates one ethnic group of people from another. However, not all members of ethnic groups are easily identifiable by objective, that is, physical characteristics. Also, it is difficult to determine the boundaries of ethnic categories in this way. The use of a behavioral definition, also somewhat objective, combined with cultural markers like language, religion, dress code or customs, is another troublesome advance. Characteristics of that category are susceptible to change.

Brass (1991) takes a qualitatively different approach that will be adhered to in the following analysis. He claims that *ethnicity* and *nationalism* can not be identified by either of the aforementioned definitions since both are social and political constructions. Brass (1991:8) claims that ethnic identities are creations of elites, which draw upon, distort, and sometimes fabricate materials from the cultures of the groups they wish to represent in order to protect their own well-being or existence or to gain political and economic advantage for their groups as well as for themselves. Breuilly (1982), correspondingly, warns that to focus upon culture, ideology, identity, or class is to neglect that nationalism is about politics, i.e., about the struggle to get access to power. And power, in the modern world, is primarily about control of the state. In line with Breuilly's view, Brass (1996:8) makes another claim, namely, that ethnicity and nationalism are modern phenomena inseparably connected with the activities of the modern centralizing state. Interesting enough, this is supported by Wade (1997) who does not approach his topic, ethnicity and race, from a point of view of nationalist politics. Wade states that racist views was not invented in Europe until the mid-eighteenth century, an observation which is confirmed by contemporary paintings where representatives of the European elite are seen mixing freely as equals of people of dark skin. Ethnic identity and modern nationalism, according to Brass, arise out of specific types of interactions between the leaderships of centralized states, the state-national elites, and influential subgroups within subordinate ethnic

communities. It follows from the existence of ethnic variability, that ethnic group identities can be produced for the purpose of serving as political resources for elites in competition for political power and economic advantage. The identities become referents for the identification of members of the group that is called upon in order to create a *political* identity more easily. In short, ethnic identity formation can be seen as a process created in the dynamics of elite competition within the boundaries determined by political and economic realities.

THE CREATION OF ETHNIC COHERENCE

In the previous sections, I used the terms *group* and *community* loosely and interchangeably. In the academic literature, however, these two terms and a third one, *nation*, are stringently used to indicate levels of group self-awareness and political maturity, with *group* at the low and *nation* at the high end. I will adopt this usage. An ethnic group that uses cultural markers and symbols in order to create internal cohesion and differentiates itself from other-ethnic groups, is an ethnic *community*. It is subjectively self-conscious and has established criteria for who to include into and who to exclude from its body of members. The next higher level of political awakening is when an ethnic group struggles to achieve and expand rights and influence through political action and mobilization. Then it has gone beyond ethnicity *per se* and is establishing itself as a political force; it has become a (ethnic) *nation.* That is, a nation is a *politicized* community, in the sense that the community's beliefs, behavior, customs and other attributes accommodate a political message. This transformation can be accomplished by a competent leadership, a local elite, by either transforming the unfocused ethnic group into a self-conscious entity, a community, and politicizing it, or by amalgamating diverse ethnic groups and give them a common identity and a political focus. Ethnic demands center initially around certain central symbols - like language, religion, origin, history and territory - which are seen as distinguishing the ethnic community from its surroundings. As I will indicate later, this is the level most Maya activists are at today. Some of the more politically advanced activists, however, promote their views forcefully in the context of a political program with an ideological vision that intends to appeal to all Mayans, i.e., as Pan-Mayanism. One notable Guatemalan example is Cojtí Cuxil (1996).

The process of merging ethnic groups into communities and advancing them into nations requires a contrasting environment, i.e., an other-ethnic society, and a local leadership. The tactics of the leaders are to emphasizing the uniqueness and the rightness of the groups, and, particularly, intensifying the subjective meaning of the community's symbols of identity. These are made more relational than just personal and instrumental. Language becomes not merely a

means of communication, but a priceless heritage of group culture; familiar places and historical sites become sacred shrines. Myths are being created and from the combined effect of these efforts, a unique communal identity develops, both inwardly towards the group members and outwardly towards the surrounding society.

In line with the above argument, Connor (1994:198) emphasizes that ethnic nationalism is a mass phenomenon. The historical accuracy of the mobilizing myths is irrelevant as exemplified by the Nobel prize laureate, Rigoberta Menchú in her autobiography[1] that calls on a "collective memory", a kind of handy data bank, when reality does not fit the needs (Stoll, 1998). To which degree the instigators of these beliefs are true believers, does not affect the reality of their creation. The essence is not the sincerity of the propagandist, but the nature of the mass instinct to which he or she successfully appeals to. Connor (1994:204) argues that no matter how they are described, the bonds within such a group - the national bonds - are subconscious and emotional, rather than conscious and rational, in their inspiration. While the outer form may be different, the non-rational core of the ethnic community is being reached and triggered through symbols which, in their nature, is no different - except in intensity and perseverance - from those used by any nation-state that needs their citizens' affection, using nation-symbols (the swastika, the flag, the national football team), music (the *Horst Wessel* song, the national anthem), and myths (the "common" past, the "founding fathers", the lost/won battles), the chauvinistic slogans ("Das Deutsche Volk!", Norway's ex-Prime Minister Harlem Brundtland: "It is typically Norwegian to be excellent.") - to mention some.

The propensity to perceive an ethnic division in terms of tangible differences between an ethnic group and its surrounding society, is often underlined by the statements and the actions of those most involved. In their desire to assert their uniqueness, members of a group are apt to convert their most discernible and distinguishing institutions into rallying points. However, national identities may survive substantial alterations in language, religion, economic status, or any other tangible manifestations of its culture, without loss of identity. But, as a result of the tendency for both the nation activist and the observer to describe ethno-psychological phenomena in terms of tangible manifestations, the true nature and power of the ethnic feelings are not probed. Ethnic strife can only superficially be understood by studying its tangible elements, like language, religion and customs. What is involved in such a confrontation is a divergence of basic identity that manifests itself in a 'us-them' syndrome. The group's conception of uniqueness and the urge to maintain its otherness implies that an external reference becomes crucial for its sense of being a nation. The group requires a referent, i.e., the

idea of a 'us' requires a 'them'. In this context, *Us-Them* for a nation play the same existential role as *I-Thou* for the identity of an individual (Buber, 1937).

A natural response from a government to the possibility of a threatening nation in a multi-ethnic country is a call for assimilation, which also was good policy in Guatemala among the Ladinos up to quite recently. If the coexistence of differing cultures appears incompatible with continued unity and yet partition is deemed unthinkable, polices to promote homogeneity are the most attractive alternative. It is a mistake, however, to underestimate the resistance to assimilation that governments can be expected to encounter. Many governments have discovered belatedly that the enmity of groups towards acculturation represented a more formidable adversary than they had supposed. Connor (1994:22) gives examples and concludes that assimilation is even more of a natural foe to self-determination than is the multinational state. The emotional power of ethnic nationalism, which may threaten the multinational state, casts serious doubt upon the probable success of assimilation programs.

The Maya social identity has long been characterized by community-based allegiances (Warren, 1998:137). This, the dispersed habitation pattern, and the repression and violence of the 1970s and early 1980s, put on hold the organizational efforts of the Maya communities in Guatemala. But it also helped the Mayans to counter assimilation efforts by the Ladino society. Another effect was that a large part of the social and political activity took place at the local or, at best, regional level, resulting in many groups and a high incidence of local affiliation, but with little or no communication across basic cleavages within the Maya community. Most group activities, until recently, occurred within isolated and self-contained pockets of the community - a situation conducive to sharp disagreements, extremist behavior and the possibility of disintegration (Lijphart, 1968:7,10).

MAYA SELF-REALIZATION

The current era in Guatemala of politicized ethnic resurgence is tied to the liberalization that followed the introduction of a (so-called) democratic constitution in 1985. The regime is best called a *procedural democracy*. With that is meant that the procedural aspects of the democratic regime are in place, but the application of them reflects that the democratic institutions do not function satisfactory, because of a lack both of a commitment to and experience with democratic procedures and practices. A procedural democracy, therefore, remain politically unstable, as was demonstrated when President Serrano in 1993 tried to take near-dictatorial power by a coup d'etat (McCleary, 1994).

[1] Burgos-Debray, Elizabeth, 1984, *I, Rigoberta; An Indian Woman in Guatemala.*

The new national policy of Guatemala that followed after 1985 was characterized by neoliberal economic reforms. Today, like other Latin American governments, the Guatemalan government is pushed by market forces and the international community to liberalize its regimes, hold elections, and honor basic civil rights. In response, numerous groups - Maya more than Ladino - have emerged to press publicly for concerns that had no legal communication channels in earlier years. The number of civic organizations that were started in the city of Quetzaltenango during 1993-97 has tripled in comparison with the situation sixteen years earlier, i.e., during 1977-81 (Muni-K'at, 1997:14). But this is only the top of the iceberg. Today religious, pro-labor, cultural, educational, and a large number of other special-interest organizations, with their umbrella associations, are mushrooming at a rate which makes any meaningful registration impossible. Given that they all seem to have permanent staffs, offices and technical facilities, it would be unreasonable to assume that they are not believed to serve a purpose to their constituencies - in the case of the Mayans, besides other goals, a claim for uniqueness and equal rights within the society.

In Guatemala the belief - real or illusionary - is strong that the political situation will continue to improve and that the possibilities under the present rule will sustain the small gains won so far and add more down the road. Compared with the past, it seems undeniable that the Mayans, initially marginalized, will have a lot to gain politically under the present conditions where its organizations are free to promote their ideas and work for their ethno-political goals. This may have less to do with winning positions through democratic elections, since that option may carry little clout in Guatemala at the moment. But free speech and open communication for Maya constituencies that often are dispersed and live in remote regions, may strengthen the consciousness among the Mayans and align them into a political force. As described earlier, this is clearly the short-term goals of the upcoming Maya intelligentsia. By the same token, the will to repressive excesses, so often present among the Ladino elites of Guatemala, may be kept in check by the same conditions.

If democracy can be sustained in Guatemala for any length of time is an open question, however. Huntington (1996a) speculates if the absence of the *combination* of non-unique Western factors in countries outside the West make a Western-type democracy not sustainable there - identifying India and Japan as possible exceptions. More to the point, there are few indications that the power and ambitions of the Guatemalan military elite has been seriously curtailed in the era since the introduction of the new constitution of 1985. (See McCleary, 1999, who forwards a very different interpretation.) The incompetence and the disastrous economic policies of the many military governments before 1985 that was the main reason behind the

need for liberalization, could easily be forgotten by the new brass of the barracks, and more so if the international community slackened its watch on the situation.

MAYA ACTIVISM IN GUATEMALA

None of the Mayans I spoke with denied that the liberalization of public life and the economy of Guatemala had had a major influence on the identity building among the Mayans, which is felt also in the environment this study addresses. The newness of freedom to organize, absence of overt oppression, and international exposure from the mid-1980s onwards, have offered fertile ground for political opportunities for Maya factions to promote their "nationalistic" ideas, often referred to as "Mayanism". Today a volatile but enterprising situation exists within the indigenous communities of Guatemala.

Current Maya activism seeks a culture-based solution to Guatemala's many problems. In a short-term perspective it works for the conservation and resurrection of elements of Maya culture; in a longer perspective it wants to force through governmental reforms within the framework of the 1985 Guatemalan constitution and international law. The control of Maya history and prehistory is of central importance to the movement's cultural promotion because of the widely held view that "true" Maya culture consists only of those features that survived from the pre-colonial period. The influence of recent centuries of European and African culture is seen as "contamination", and the incorporation of non-Maya elements is supposed to be a weakening or a pollution of the "true" Maya culture. The Mayan languages that have remained largely intact throughout centuries of foreign incursions, represent a uniquely authentic cultural possession for their speakers. Local costumes - forced upon the indigenous population by decree by the colonial state - is another ethnic manifestation. The *traje typico* remains a principal symbol of female identity, which, however, has not been emphasized by the male leaders of the Maya movement. Early colonial documents and Maya pre-colonial hieroglyphic writing are another important source on original Maya culture and provide a correction to the ethnocentrism imposed upon the history of Guatemala by Ladino writers (Fisher and Brown, 1996).

Many Maya intellectuals promote a strategy founded on these elements. The purpose is to empower the indigenous population and revive and strengthen an indigenous identity. Following the new political wind in Guatemala after 1985, a growing number of Maya students and professionals are also turning to the social sciences to support their political advocacy for the Maya people (Watanabe, 1995:41). Their politico-scholarly agenda is aimed at regaining control over scholarly and popular representations of the Maya people, since any of the Maya critiques of the present Guatemalan Ladino state are based on historic-cultural comparisons (ibid.).

Parts of the Maya activist movement in Guatemala has labeled their message 'Pan-Maya', indicating that they have all Mayans in mind, also those in the surrounding countries, independent of country borders. That aspect, however, is not loudly promoted at present. The Pan-Maya movement seeks recognition of cultural diversity within the nation-state, a greater role for indigenous politics in the state-national culture, a reassessment of economic inequities, and a wider distribution of cultural resources such as education and literacy in indigenous languages. The movement's commitment to education represents a compelling change given an educational system in which 70 percent of the public schools offer only four years of classes, 92 percent of the population over the age of fifteen has never finished the conventional six years of primary education, and less than half a percent of the population has been given access to a university. Most professional Maya activists, have been schooled in Guatemala; a handful have studied in the United States or Europe (Warren, 1998:37).

The early years of the movement, in the mid-1980s, were focused on issues of cultural origin and self-definition. Since then, Maya activists have focused their debates more squarely on questions of the best direction for Maya nation-building, elaborated specific demands on the state for major reforms in administration, language policy, the future role of the military, economic priorities, education, communication, and respect for Maya ceremonial centers (Fischer and Brown, 1996). Some of these were highlighted in a plebiscite (*consulta popular*) in May 1999. The resulting '*No*' to proposed amendments to the 1985 constitution, was widely seen as a setback for both the Mayanism movement and the liberalization process in Guatemala.

Movements that seek to mobilize around indigenous identity, focus on the contradictions inherent in political systems that embrace democratic egalitarianism yet, by promulgating monoethnic, monocultural and monolingual images of the modern nation, exclude major sectors of their population and the cultural heritage of these. The political mainstream has often pursued assimilation as the logical way to resolve the "ethno-national" problem and ensure national unity, but cultural characteristics and differences are less mutable and hence less easily compromised and resolved than political and economic ones. Even many supporters of Maya mobilization have reservations, due to fears that calls for self-determination, in its ultimate conclusion, may lead to a destructive breakup of the nation-state (Warren, 1998:5).

Critics of indigenous movements in Guatemala question the validity of these Pan-Maya politics. They argue that there exists no clear demarcation between the indigenous population and the Ladino mainstream. In many cases, they claim, there is no transcendent concept of an indigenous people but rather many micro-ethnicities and community identifications. Maya activists, on the other hand, hope that the ideology of 'unity within diversity' will bring Mayans

powerfully into the mainstream politics and thereby give them the political tools necessary to address Guatemala's serious development dilemmas. They propose a multi-cultural model for participatory democracy. Their model recognizes multiple national cultures with a mandate that defines collective cultural, linguistic and political rights for Maya citizens and legitimizes their claims for cultural and political space in the country's educational, judicial and administrative systems (Warren, 1998:9, 13). The political reality of Guatemala, however, is dominated by the overarching Hispanic standard for nationalism that predominates in Latin America. At the same time, the economic aid for the indigenous poor, promoted by foreign governments under the ongoing *Proceso de la Paz* (peace process), does not seem to reach its beneficiaries. And while the appalling living conditions for the many are widely recognized, no national policy has been proposed for the alleviation of the situation. There is no lack of words about the need for a change, but in the end the whole seems to behave rather more like a tar pit where ideas sink slowly out of sight leaving everything just as it was.

ETHNICITY IN QUETZALTENANGO: HAS MUCH CHANGED OVER TIME?

Adams (1995: 395) points out that a watershed has taken place, from the 1960s to the 1990s, in how ethnicity is being perceived in the Guatemalan society. In 1969, one of his students did an extensive study on the economic, social and political activities of the "Indians" - now referred to as Mayans - in Quetzaltenango (Hupp, 1969). Even though Quetzaltenango has expanded from a town of forty-two thousands to a city of more than a hundred thousand inhabitants in the past thirty years, Hupp's observations on the major characteristics of the urban Maya population and what it meant to be considered a Mayan in Quetzaltenango at that time, illuminate important aspects that is valid also today. I will briefly highlight and comment on parts of his work.

Hupp (1969:11) - referring to the custom, then and now, among Quetzaltecos (any permanent resident of Quetzaltenango irrespective of ethnic background) - subdivides the Mayans into a lower, middle and upper stratum. Professionally trained Mayans were grouped into a separate category, "professionals", located between the middle and upper stratum. However, this manner of division represents only one possibility. Taking economic wealth as the criterion, Mayans and Ladinos are lumped together and ranked strictly on wealth, and in this case, according to Hupp, the wealthiest Mayans rank higher than most Ladinos - as today.

However, when access to political power acts as the divisive factor, in the 1960s the Maya population fell at the bottom. This situation has changed. Today's *alcalde* (mayor) of

Quetzaltenango, Lic. Rigoberto Quemé Chay[2], is a Mayan with strong support in the Maya population, from the Maya organizations and his own influential *cofradía* (Catholic brotherhood). Considering that the Constitution of Guatemala gives the national government in Guatemala City extensive power also at the regional levels of departments and municipalities, and that the Ladino opposition in Quetzaltenango to Lic. Quemé's regime can mobilize significant economic and political influence, the fact that some Mayans rise to high public offices should not be overrated (*Prensa Libre*, 1999a). Hupp concluded that among Mayans, proportionally the middle stratum occupied the largest part rather than the lower stratum as might be expected, followed by those in the lower stratum, while the professional and upper strata represented only a minor fraction of the Maya population. The focus of Hupp's study was the Maya population *per se*. His study, therefore, did not correlate the socio-economic distribution of Mayans to the socio-economic Ladino population of Quetzaltenango. In the discussion on ethnic discrimination in Chapter 6, I argue that the distribution of Mayans is shifted downward, towards a less favorable situation, in comparison with a similar distribution of Ladinos. Hupp emphasizes the close interaction between the urban and the much poorer rural population of Mayans which, for demographic reasons, is much higher than what applies to Ladinos (ibid: 21). Not much has changed in that situation up till today. In Chapter 6 I use this in support of my argument that the Mayans of Quetzaltenango as a group are worse off economically and socially than Ladino Quetzaltecos as a whole.

Hupp (1969: 21) claims that the clearest differentiation among Quetzaltenango's Mayans is between that of the lower stratum and the rest. He describes the former as "simple, humble, backward and exploited". These Indians were often recent migrants from Maya settlements and small towns in the western highlands. Their rural origin was their most notable characteristic and major drawback because it slowed down their ability to adjust to an urban way of life, like switching from agricultural work to wage employment or self-employment in some form of commercial activity. Hupp notes that a two-ways migration takes place between Quetzaltenango and the rural areas, a situation that in my interpretation slow down or hamper the adaptation of Mayans, as a group, to urban life. I have no way to tell if that situation continues and, eventually, to which extent today. As Hupp points out, the more fortunate of the lower stratum Mayans find steady employment and may move up into the ranks of the middle stratum. In his view, few Mayans who lived in Quetzaltenango for a long period of time remained permanently

[2] There is no family relationship between Rigoberto Quemé, the mayor of Quetzaltenango, and Sr. Orlando R. Quemé P., President of ADEQ, whom I will refer to later.

within the lower stratum, except for domestic servants. He points out a fact that is clearly observable today, too, that Mayans employed as domestic servants - only women, the so-called *muchachas* - and manual laborers, are looked down upon by Mayans and Ladinos alike.

According to Hupp (1969: 23), the amount of money available for business activities is the primary criterion used in separating the lower, middle and upper strata of Mayans. In his notation, the middle stratum are the small independent businessmen, artisans, and skilled laborers. They own bakeries, small grocery stores, tailor shops, shoe stores and other types of businesses. Those with more money run non- or low-mechanized workshops, and the rest works in small enterprises. The difference between the middle and upper stratum is primarily the larger amount of capital available to upper stratum Mayans who invest in several or considerably larger businesses rather than only one or two small- or medium-sized enterprises that characterizes the middle stratum business. Unlike the lower stratum Mayans who can move into the middle stratum fairly easily, the middle stratum Mayans seldom enter the ranks of the upper stratum because of the intense economic competition within their own stratum. Hupp offers no quantitative data that would indicate the relative size of the socio-economic strata he discusses. The professional stratum, following Hupp, are educated Mayans, like lawyers, primary and secondary school teachers, business accountants, and social workers. They serve as a link between the Maya and Ladino population because of their better education and closer social relationships with Ladinos than other Mayans, except those in the upper stratum. If economic criteria is used, the professionally trained Mayans fall into the middle stratum. Often these men and women have less money than the more successful middle stratum businessmen. The professionally trained Mayans are employed in a professional position rather than operating an independent office for their professional services, except for lawyers. If education, position and contact with Ladinos acts as the main criteria, Mayans in the professional stratum rank with the upper stratum Mayans and only money keeps them from achieving this status.

COMMENTS

In this chapter I have offered an understanding of ethnicity that presupposes a high degree of awareness among members of the same ethnic background if they aspire to function as a community or - in a political context - as a nation. The question, how to define a member of an ethnic community, is a complex one. I have alluded to possible approaches discussed in the literature. On a macro-level the ethnic polarization in Guatemala, however, is so obvious - politically, culturally and economically - that this in practice is not an obstacle. We will see as I start discussing the specifics of the field work of this study, that this situation is reflected at the

individual level among Mayans. No person I approached in Quetzaltenango had doubt about his own ethnic affiliation or that of his environment. At the present, he part of the Maya population of Guatemala that is organized, is highly fractured with no representation either on the regional or the national level. Also, ethnic demands are closely linked to certain central symbols - like language, religion, origin, history and territory - which are seen as distinguishing the ethnic community from its surroundings. Political demands related to the Mayans as a disadvantaged part of the population, is brought forward only loosely connected to the ethnic perspective. With reference to the ongoing mobilization and conscious building that is going on in Guatemala today, discussed in the section on Maya activism, one can hypothesize that this situation will not last, given that the present political situation of Guatemala continues unaltered.

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PART 2: FIELDWORK AND RESULTS

"You see, but you don't observe."
Sherlock Holmes to Dr. Watson

CHAPTER THREE:

Trotting the Streets

As I started to implement the research scheme I had laid out in preparation of the fieldwork for this study, I ran into a number of practical problems. The solutions to these are being discussed in the following sections. The contacts I established in Quetzaltenango - on one hand, the interviewees and, on the other, professionals from many strata whose help I called upon to interpret and expand upon the information I was given by the former - are identified. Also, the strategy for my conversations with the entrepreneurs and how this was carried out in practice, are discussed.

WHEN THEORY MEETS REALITY

The aforementioned definition of the informal sector forwarded by Castells and Portes (1989:12) as "those enterprises that avoid state regulation, such as fiscal obligations and labor standards, in contexts where similar activities are so regulated" is a helpful conceptual tool, but difficult to apply in practice. Without convenient disclosures by the owner, an improbable courtesy, it is difficult to determine, at least in the first round, if the enterprise under study is one that "avoid state regulation". One would think it is unlikely that there exist clandestine enterprises in Quetzaltenango where all enterprises have been registered after a recent door-to-door search by the authorities (Vital, 1999). However, one of the interviewees of this study, EL-1 (the coding of names will be explained later), indeed operated as a clandestine enterprise, and EM-5 who had been "lost" by the municipality, were very much in that category. All the other entrepreneurs who were interviewed, had been registered. The discussion will show that neither the existence of receipts of previous transactions nor the fact that the entrepreneur pays taxes is a proof that the enterprise complies with state regulations. The example of EM-5 with ten employees, who did not pay taxes, and EM-1 with one, who did, shows that the size of the enterprise is no indicator, either.

Numerous sources pointed out that the avoidance of state regulations take different forms, among them, reporting a deflated production volume, bribing the municipality

representative who checks the paperwork in the workshop, or taking advantage of a lax or incompetent municipal bureaucracy. The gain is not only reduced tax today, but a better negotiating position if or when new regulations are being introduced (see discussion of the planned changes in the national taxation system in Chapter 7). It was therefore decided that the *possibility* the enterprise had to juggle the taxable aspects would be used as a primary criterion of informality, complying with the definition of Castells and Portes (1989), in lack of direct proof of *evación fiscal* (tax evasion). As will be shown in the discussion of the control group of formal enterprises, this proved to be a good measure.

During the study I was left with the impression - rightly or wrongly - that the Maya institutions that helped me initially in identifying and contacting Maya entrepreneurs, had a tendency, unintentionally, to guide me to the settled and well-known among them, thereby introducing a bias in my material. By the same token, it was unlikely that any contacts established through, say, Sr. Villagran, *el auditor de la municipalidad*, the city's comptroller, who was kind enough to respond to my requests for help, would reveal sensitive information. (None of Sr. Villagran's proposals for interviewees were followed up, in part also because the enterprises he proposed were too large for my purpose.) To counteract a possible bias, I used the lists of entrepreneurs from organizations that were willing to help and picked candidates I found most relevant, often after some background research. Also, I used recommendations from independent individuals and some enterprises I found on my own by walking the streets.

Due to hesitancy or inability among most of the entrepreneurs to divulge details on the economy of their enterprise, my ambition to establish an economic "balance sheet" for the economy of each enterprise, as a basis for a detailed economic analysis of the operation, had to be discarded.

Initially my plan was to concentrate on enterprises with a hired work force of 1-2 to maximum 7-8 persons, with an emphasis on those in the higher end. Except for a larger production, however, I found no qualitative differences between middle-sized enterprises of, say, from five to seven employees and those with ten or slightly more. Often I found that the problems of the smaller ones were present among the larger ones, as well, but that the entrepreneurs of the latter better perceived the implications of those problems. The sample of enterprises that will be discussed in the following, therefore, includes some units with more than ten employees (see Table 3.1).

In the planning of this study it was assumed that establishing contact and trust with the entrepreneurs would be a time-consuming task. Just the contrary proved to be the case. While localizing enterprises of the right size, within the right economic activity or identifying

entrepreneurs of the desired ethnicity, at times could create difficulties, establishing a fruitful rapport with the entrepreneurs, Ladinos and Mayans alike, was easy - courtesy of the rightly famous hospitality of the city. In no cases did an entrepreneur decline to give an interview when I approached him.

PUTTING ORDER TO CHAOS: PREPARING THE INTERVIEWS

The conceptual approach used in preparing and organizing the interviews, indicating expected levels of priority among the tasks under the entrepreneur's supervision, is illustrated in the scheme presented in Appendix B. The entrepreneur was assumed to be fully integrated with all aspects of the operation of his enterprise with no intermediaries of independent authority. The scheme reflects the assumption that some of the entrepreneur's tasks are more crucial for the well-being of the enterprise than others, i.e., the entrepreneur had to take a strong hand on certain aspects of the enterprise and could allow himself to be less urgent on others. This artificially but conceptually useful distinction, was meant to identify important functions like the entrepreneur's business relations to formal or informal contractors or his supportive (ethnic) network, and less crucial functions, say, the daily operation of the enterprise or the economy of his family under stable conditions. While the work on this "model" served as a highly beneficial exercise in preparation for the actual interview work, identifying in advance - I believe - every aspect that possibly could come up in the interview, it was not fully implementable in practice due to the particular circumstances of the individual enterprise. It was also appreciated from early on that to get the interviewees' active participation a regular questionnaire did not function and that a conversational form on the interview was preferable. Therefore, the approach applied was to use the "model", combined with a detailing of each topic into a number of specific sub-entries, to ensure that all aspects of a topic had been addressed. The extent to which an entry was relevant to the individual entrepreneur and his willingness to release information, would determine how many of the sub-entries would be raised. If permission was granted by the interviewee, as it always was, the interview was taped and later transcribed.

PERSONS CONTACTED

The people contacted fell into two categories - the entrepreneurs and everyone else. The latter group consisted of professionals with background of relevance to the topics this study touched - among them, individual with unique practice, scholars at the main university locally and persons in leading positions within the municipality and at the helm of different kinds of organizations. While few, if any, of the perspectives I brought up with them seemed to have priority on their

day-to-day agenda and their views not always fit the facts at hand, their active interest in my work and the exchange of views I had with these persons were highly valuable in the ongoing analysis of my data as the study progressed.

Non-Entrepreneurs

A number of individuals, representatives of lending institutions and Maya organizations, as well as officers of the political structure, were contacted to help with different kinds of information, to identify Maya entrepreneurs who fit the criteria of this study and to ensure a proper introduction to them, and to expand upon information acquired in the interviews with the entrepreneurs. The names and affiliations of these individuals are listed in Appendix A. In all situations where Maya organizations were approached, the persons in charge would comply with my request for assistance of some kind or another. Officers of the lending institutions were cordial on all matters, though, with one exception, I was turned down when I requested help to establish contacts with their Maya clients. Lists of entrepreneurs I was able to get my hand on, were - more often than not - littered with errors which made the information near to worthless. Besides, my contact with the organizational men included a solid share of promises that were never honored, telephone calls that were never returned, scheduled meetings where I showed up as the only participant, information offered that never arrived etc. Also, it added to the unreality, if not the productivity, that naming of the streets and numbering of the addresses in Quetzaltenango are laid out according to a logic that had not kept up with an expanding city over time and frequently was incomprehensible to most locals and this author alike.

Entrepreneurs

The entrepreneurs interviewed in this study were promised that their names would not be made known to a third party. Therefore, names and addresses have been withheld, and a coding system is used. EM-n (n=1, 11) refers to a Maya entrepreneur and the number he is identified by; EL-m (m=1,3) refers to a Ladino entrepreneur. The interview itself would normally last 30-45 minutes. In addition, the facilities of the enterprise were visited, most often in continuation with the interview, allowing for a relaxed expansion and check of the information received, and for a subjective assessment of the prosperity of the entrepreneur. In a few cases I returned to the interviewees some time later to iron out ambiguities, missing data and possible misunderstandings in the previous conversation. The subjective assessment took the form of a visual inspection of the workshop, its size, the kind and number of machines used and their age, etc. When possible I would also visit the living quarter of the entrepreneur and his family. A

brief description of the individual entrepreneurs follows. Information I was given in the interviews, is referred to in the discussion in the later chapters, either in tabulated form or in the text itself.

EM-1 was a male Maya, 40 years of age, had a university degree as *licenciado* in economy (comparable with a US Bachelor) and had been running his workshop - making sweaters, pullovers, school uniforms etc. - for the last 15-20 years. At present he, his wife and a Maya employee, all three on full-time, and his son of 20 years, on part-time (after school), were working in the shop. It was a typical family-led enterprise operating under stable conditions, offering a tolerable income, but demanding long workdays. He would not inform me about the salary he paid his employee, a young man of around 16-18 years of age. He sold his products to shops in towns within a periphery of a few hours' bus ride away. He did not distinguish between Ladinos and Mayans in his business dealings, but was positive towards Mayanist ideas. His family economy was fully integrated with the economy of the shop. His household consisted of three children, his wife and two other adults. His workshop, which had attached a small sales desk, comprised of three slow, 20-years old, hand-driven knitting machines and a newer, electric one, 10 years old. The place was cramped and gave the impression of being very much at the margin.

EM-2 was a male Maya, 53 years of age, had completed *escula secundaria* (9 years), and had been running a enterprise based on production and sale of clothes (suits, pants, padded jackets) for the last 32 years. He was undoubtedly prosperous in his function. His large shop where all his products were sold, was centrally located in downtown Quetzaltenango. Neither his children nor his wife worked in his enterprise. Like all the other enterprises (with exception of EM-4), the enterprise was debt-free. The entrepreneur told me that while he was positive to pro-Maya points of view in private, this did not influence him in his business dealings. As he stated it, half of his working staff of six (including himself) was Ladinos.

The reality, however, was proven to be very different when I later paid his workshop a surprise visit, while he was not present, and talked directly with his workers. His enterprise consisted of, not six, but 13 persons (including the owner). Eight made padded jackets in the workshop attached to his shop, and four made suits in their homes. With the exception of two junior persons in the workshop - referred to as assistants - all the workers had a sewing machine at their disposal, including those working at home. In the latter case, the machines were simpler, probably hand- or foot-driven, and were paid and owned by the workers themselves. The salaries of the workers in the workshop were not Q800 per

month as I had been told by the owner, but Q600-Q700. Since making suits was a more demanding task, according to the worker I talked with, and the homeworkers have their own machines, they - all men - supposedly had a higher salary. The age of the personnel working in the workshop was 15-25 years, while those working in their homes were older and more experienced, 25-30. The workshop was well laid out and gave the impression of being efficient and well organized.

EM-3 was a male Maya, 70 years of age, had completed *escula primaria* (6 years), and had been running a well-known, stable - and now, prosperous - enterprise based on production of fine shoes for men, for the last 42 years. The shoes were delivered to shops in Guatemala City on volume-per-week contracts. He did the more complicated work on the upper part of the shoes himself, using the modern machines of his workshop, and farmed out the rest of the work to 26 Maya workers who did their part by hand in their homes. He said that he was very conscious about using only Maya workers in his production, because, as he stated it, Mayans needed help, but he did not differentiate on ethnic ground in his other business dealings. He was active in a Maya organization, Xelaju (which doubles as the political machine of the present Maya mayor of Quetzaltenango). A scrutiny of numbers he gave me, made me skeptical to part of the information I was given. However, those parts of the information I have faith in, after having checked it with other sources, has been included in the following discussion.

EM-4 was a male Maya, 50 years of age, with *escula secondaria* (6+3 years), and had been running an enterprise based on production of clothes (jackets, pants, etc.) for the last 20 years. However, due to a swindle where a contractor did not pay his debt, he had to start over again. His enterprise employed two employees (Maya girls), his son (after school), and himself. He sold his production from a sales desk in his cramped, rented workshop. He was married with six children, all getting a university education. He had a total debt of Q26,000 to a lending institution, including debt from a recent purchase of new second-hand sewing machines, to be paid back in one year. There was a *garantia hipotecaria* on his private home (see Chapter 5 where formal lending is discussed). He did not distinguish on ethnicity in his business, but had a positive attitude to Mayanist ideas and strong opinions against what he called the exploitation of Mayans in the society. Contrary to the other entrepreneurs I talked with, he continued working during the interview, and gave the impression of being a focused and hard-working man who had fallen on hard ground.

EM-5 was an energetic, very focused male Maya, 39 years of age, with *escuela primaria* (6 years), and was married with four children. For the last 12 years he had been running an

enterprise making shoes for men, women and children. At present he employed 10 people, including his wife, five working in a house next to his, both properties w/land owned by him, and the other five in their own homes. The two groups did the same kind of work, though the former had access to his machines. From being an employee in the shoe business, he had started out on his own with one machine he got from his family, which was working in the same economic activity. After eight years he bought his first first-hand machine (price Q13,000) and recently he had bought another two first-hand machines (price 4,000 and Q3,000), with loans from different lending organizations. At the moment he was without debt. He had not paid taxes for the last three years and, as the custom was, paid no welfare security costs for his workers. Because of what he called "an error in the municipality", EM-5 had paid no taxes in the last three years and he, like the rest, paid no social security or insurance for his work force. Like EM-8, he did most of his economic transactions in cash, evading checks and other documentable means as best he could. EM-5 drove a shiny and well-kept Mazda sedan, model 1992, owned two fair-sized lots with property on, including the one with his own large, comfortable house. And even when he labeled himself as an workaholic, by his own account he did not work more than the normal work-day 5½ days per week.

EM-6 was a male Maya, 57 years of age, with *escuela primaria* (6 years). He was married with four children, 2 girls and 2 boys. For the last 25 years he had operated a carpentry, that employed 6 persons, all young Mayans, in addition to himself and his two sons. He and the family members had sympathy for the Maya activist ideas, but these did not influence their business decisions. His workshop made products of wood like chairs, tables, frames, etc. on ad hoc basis for medium-sized whole-sale merchants. He trained his workers in his workshop, but had a high turn-over; typically, his workers stayed there only one year. The large workshop, somewhat disorganized, was well equipped with machinery and technical installations, and his family lived in a spacious new house adjacent to the yard. He was the only one who stated that he took up loans with his family, always only for a few months' duration and interest-free. He seemed to be doing quite well. Some of the numeric data he gave me, were unreliable. Other parts were trustworthy and are used in the following discussion.

EM-7 was a male Maya, 52 years of age, had a university education as both an chemical engineer and a psychologist and had been running an enterprise, producing children's clothes, for the last 15 years. He was married with five children, two from an earlier marriage, but none of the family members worked in his workshop. A workshop,

connected to the house of his family, employed eight women. In addition he had four more women working for him in their own home. Of the twelve female employees, ten were Mayans. He paid his workshop workers low wages, Q650 per month. All his workers had machines at their disposal. An unfriendly atmosphere governed the spacious, well-organized workshop when I visited the place together with the owner. The entrepreneur mentioned that he had problems with the productivity and the motivation of his workers.

EM-8 was a very focused and dynamic Maya and was - in contrast to all the other entrepreneurs - a woman. She was 34 years of age and was in her second marriage, with three children. She had a university degree in psychology. She ran an enterprise, which, at present, employed 2 Maya employees and 2 members of her family, making *pan tipicos* (called *roscas*). The enterprise had been started by her grandparents, had been taken over by her parents and was now under her. Her products were transported in big crates by car, owned by friends who were hired for task, to public *fiestas* all over Guatemala. Her clients would be public officials, but she would do her financial transactions in cash, not with checks. Her workers were paid by volume produced and their salary would oscillate between Q400 and Q800/Q1,000, depending on the demand of the market. For the same reason, her staff would sometimes increase with two more employees. She paid a modest tax per year, Q1,500, no social security for her workers, and kept no paperwork of her economic transactions.

EM-9 was a male Maya, 43 years of age, from Quetzaltenango, as the rest, who ended his schooling after five years in *primaria*. He was married with eight children. He had been making shoes (moccasins) for the last 15 years, at present together with two of his sons (14 and 22 years) and one adult employee in a shed behind his primitive house. The employee was paid Q200-Q250 per week. At the moment he was idle because he could not raise money for raw material for the next batch of shoes. He had taken up loans twice before with FUNDESPE, each time Q5-6,000 which he paid back over 18 months, and with his house as collateral. He sold his products to *vendedores* in *mercados* at the coast. He paid no taxes. His main problems was the competition in his area and capital up front for purchasing his materials. He had one sewing machine, bought new at a price of Q1,200 for two years ago. His place was a miserable sight and even though his product seemed all right at first glance, he himself classified them as low-quality.

EM-10 was a male Maya, 54 years of age, had studied three years at university level, and was running a shoe making workshop for women's shoes with three experienced employees, two Mayans and one Ladino. All the work was done by hand. In addition to the workshop

was a small shop, which EM-10 tended, where he sold his production of 30 pairs of shoes per week. His salaries were low, Q100-Q125 per week, but his workers had stayed with him for two or more years. The enterprise was 16 years old. Before it was started, the owner worked as an employee himself. The reason for working by hand was that he had not enough production to buy machines. His contact with the financial institutions, therefore, were absent. His main problems were both a tight market and competition. These drove down the price on his products, which he sold for Q40-Q50 per pair.

EM-11 was a male Maya, 66 years of age, and had been running a workshop doing paint-work on cars for the last 35 years. He had finished school after *escuela primaria*. He was married with six children, but none of them worked in his shop. He had seven employees, all Mayans. The salaries he paid was higher than all other places I had visited, probably because of the more specialized work, and his workers stayed with him typically for years. Three of his workers earned Q2,000, one Q1,500 and three Q1,000. He was the only one I talked with, who paid work insurance for his workers. One of his workers had a *licenciado* degree in business administration, but earned more money doing car work than in his other profession. Some of his machinery, primarily compressors, were costly, up to Q50,000 new. Some of the jobs he was doing, paint and bodywork on cars, would imply a price tag for the final job of up to Q40,000 and above. His workshop looked unorganized and of low productivity, but his economy sounded solid. His main problem, he said, was alcohol misuse among his workers.

EL-1 was a male Ladino, 46 years of age, married with three children who owned an enterprise making shoes for woman. The enterprise employed four workers and himself. The workers' salaries were set according to each worker's production with Q10 per pair of shoes. His weekly production was 24-30 pair of shoes per week, but each person's output varied greatly due to variable workday. He claimed his profit per pair of shoes was around Q6-Q8 (the same EM-5 had claimed). And he meant that the cost of materials per pair of shoes could sum up to Q35. His workshop, where only one worker was active when I visited it, had some machines, but not the fancy "edge-cutting ones" for the hide EM-3 and EM-5 proudly had shown me in their workshops. He meant the market was variable with nine good and three bad months of sale. Ethnicity played no role in his business practice and was of no importance to him privately.

EL-2 was a male Ladino, 27 years of age, unmarried, who owned an auto workshop for paint and mechanical jobs together with his father. He, his brother and father worked in the workshop, together with two employees, both Ladinos, which looked very much like EM-

11's car shop enterprise. As with EM-11, the salaries were high, Q400-Q500 per week, and the workers stayed with the enterprise typically for years. His education was *Bachiller Industrial*, i.e., graduated at the level of *escuela diversificada* (see Table 6.2). He had started to work in the workshop as young boy. He had no ethnic preferences in his business dealings and did not find the topic of ethnicity important.

EL-3 was a male Ladino, 47 years of age and *Licenciado* in accounting from the university. His enterprise which he had operated for fifteen years, made bridal dresses and was sold in his two shops in downtown Quetzaltenango together with other female clothes he both from other producers. He had seven employees, three working in his bridal dress factory and four in his shops. They were part Ladinos and part Mayans. Ethnicity had no importance to him, neither in his business nor privately. He paid "minimum " salary (Q600) to his workers, with exception of the manager of his other shop, who got Q1000. He basically had no problems in running his shop. Seasonal variation was experienced towards the end of the year.

The Entrepreneurs - A Perspective

Table 3.1
A synopsis of information on the entrepreneurs
and their enterprises

1 #	2 Age	3 Education	4 Enterprise operative (yr.)	5 No of workers, incl. owner	6 Family working in enterprise	7 Activity sector
Clothes						
EM-1	40	***Licenciado,*** *econ.*	15-20	3½	E + 1½	Sweaters
EM-2+	53	*Secondaria**	**32**	13	E only	Clothes
EM-4	50	*Secondaria*	20	3½	E + ½	Clothes
EM-7+	52	**Chem. engineer** and **psychologist**	15	13	E only	Clothes
EL-3+	47	***Licenciado*** (Account.)	15	8	E only	Bridal dress prod./shops
Shoes						
EM-3+	70	*Primaria*	**42**	**27**	E only	Shoes
EM-5+	39	*Primaria*	12	11	E + 1	Shoes
EM-9	43	5 years of *primaria*	15	3½	E+1½	Shoes
EM-10	54	**3 years at university**	16	3½	E (=½)/	Shoes/ small shop
EL-1	46	*Primaria*	15	5	E only	Shoes
Carpentry						
EM-6	57	*Primaria*	25	9	E+2	Carpentry
Food						
EM-8	34	**Psychologist**	***	5	E+2	Food**
Car repair						
EM-11	66	*Primaria*	35	8	E only	Car paint
EL-2	27	*Bachiller Industrial*	10	5	E+2	Car paint

/ The owner seemed to spend most (all?) of his time in the shop and not in the production of his workshop.
* See Table 6.2 for a description of the basic educational system of Guatemala
+ Indicates a highly successful entrepreneur
** *Rosacas (pan tipico)*
*** Took over enterprise operated by parents and grandparents
Comments: E stands for entrepreneur. The sign of ½ in column 6 indicates part-time worker.

The information on the entrepreneurs and their enterprises presented in the section above, is compiled and grouped in Table 3.1 according to the activity sector the individual enterprise belongs to. Information that stands out, has been highlighted. The entrepreneurs were sampled from five different areas of economic activity, with the majority from clothes and shoe

production. The latter result was not intentionally, but it reflects the strong positions of these activities in Quetzaltenango. Besides representing different economic activities, the sample also exemplifies different managerial schemes used by the entrepreneurs (column 7), i.e., a productive enterprise with or without a shop etc. This part will be discussed in Chapter 5 in relation to productivity factors that may influence the enterprises.

Table 3.1 identifies the entrepreneurs with a code as described above (column 1). Column 2 gives the age of the entrepreneurs. Column 3 lists the education of the each entrepreneur. In the following columns are given the number of years the enterprise has been in operation, the number of workers including the owner, the number of family member employed in the activity, and finally the activity sector of the enterprise.

One observation of Table 3.1 that stands out is the wide spread of educational background among the entrepreneurs and the large proportion of entrepreneurs with high education, see column 3. (For a description of the Guatemalan school system, see Table 6.2.) The observation is summed up in Table 3.2 and will be discussed later. Continuing the discussion of the data in Table 3.1, its column 2 shows that the majority of the entrepreneurs, including both Mayans and Ladinos, are between 40 and 70 years of age. The two youngest, EM-8 and EL-2, had both recently taken over the ownership of their enterprise from their parents. In the latter case, the father was still part-owner. Ignoring these two cases, all the entrepreneurs themselves had started their enterprise and had run it for a considerable number of years - in average 20 years (Table 3.1, column 4). This fact probably explains the high proportion of success stories in my data.

The sign of ½ in Table 3.1, column 6, indicates contribution of part-time work from a family member, in all cases one of the children doing half-day work in the enterprise after school. That information discloses a strong correlation between the *lack* of economic success of the enterprise and the need for putting the children to work part-time outside school hours. This becomes clear when one considers the cases of EM-1, EM-4 and EM-9 who all are at the low end of the greasy pole. EM-1, in addition, draws on his wife. The same does EM-3, but not out of necessity. Ignoring EM-1, EM-4 and EM-9, among the rest of the entrepreneurs seven run their enterprise without help from their family and four employ one or more adult relatives full-time.

I will discuss the aspect of education among the entrepreneurs, shown in column 2 of Table 3.. This also shows my subjective evaluation of the economic success of the individual entrepreneur based on my visual inspection of the workshop and, when possible, the entrepreneur's living quarter. Obviously successful entrepreneurs have been marked with a plus

sign in column 1 of Table 3.1 and other tables with a similar lay-out. This evaluation is slightly more detailed in Table 4.1.

Table 3.2
Educational level and economic success of
the interviewees.

ETHNICITY	EDUCATION			
	Primaria	*Secundaria*	*Diversificada*	University
Mayans	4 + 1*	2		3 + 1*
Highly successful	2	1		1
Ladinos	1		1	1
Highly successful				1

* Not completed the education
COMMENT: An overview of the Guatemalan school system is given in Table 6.2.

Among the eleven Maya entrepreneurs that were interviewed, nearly half had terminated their formal education with *escuela primaria* (or less), but three had graduated with a university degree at the level of *Licenciado.* In addition, one (EM-10) had spent three years at the university without graduating with a degree. Among the three Ladinos, a similar diversity ruled. Referring to Table 3.2, however, the data show that there is no obvious correlation between the individuals' education and their success as an entrepreneur. Two of the entrepreneurs who produce shoes, EM-3 and EM-5, have the lowest education among the interviewees, *primaria* (6 years), but do very well. And so does EM-2 in his sector, also with a short formal education (*secundaria*, 8 years). In contrast, one of the two entrepreneurs who enjoy the smallest gain on their effort in the clothes activity, i.e., EM-1, is among those with the longest education, i.e. being a *Licenciado*. If the length of the entrepreneur's practice is introduced, using Table 3.1 (column 4), it is no indicator of economic success, either - except for the fact that the enterprise is still in operation.

The above-mentioned comments, however, are only one part of the conclusion that can be extracted from Table 3.2. The data indicate indirectly, though on very limited data, that those who have a long education has an advantage. Since very few Guatemalans acquire a university degree and there is no reason to believe that university graduates disproportionally should establish productive enterprises in the informal sector, then Table 3.2 indeed show that entrepreneurs with a distinctly higher education have a definitely higher success rate. That applies to both Ladinos and Mayans.

COMMENTS

The discussion on methodology above should indicate that the identification of potential interviewees was not an easy task, a fact which raises the question of representativity of my sample. As mentioned, Vital (1999) had carried out a mapping of all productive enterprises in the municipality of Quetzaltenango with five or fewer workers. His data, however, were in the process of being processed and in his survey he did not distinguish between Ladinos and Maya entrepreneurs. Some of the information of Table 3.1 lends itself to the assumption that the sample is not representative. For example, the length of time the enterprises had been operative were long, and the proportion of successful units among them were high. However, given the qualitative nature of this study, it will be clear during the discussion of the findings that none of the above represent a valid critique towards the conclusions drawn from the data.

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CHAPTER FOUR:
Earnings and Capital Accumulation in the Informal Sector

In Chapter 1 I discussed some aspects of the informal sector that have been debated in the academic literature over the last decade, among them the question whether or not capital accumulation takes place in the informal sector and the wage structure of various informal activity sectors. In this chapter I will present those of my findings that address these two topics. I start out with discussing the salary structure of workers. Secondly, I use production data that I acquired from the entrepreneurs and estimate their take-home earnings in those cases where I had sufficient data. Finally, using the earnings of the owners of some of the enterprises and combining these with the size of the activity (measured in number of employees) and the total number of productive enterprises in Quetzaltenango, I estimate the total annual capital accumulation in the informal sector of the region.

SALARIES OF INFORMAL WORKERS

Table 4.1 comprises information on a number of aspects of the enterprises in the sample. The entrepreneurs have been listed in a way that conforms with the set-up of Table 3.1, and information that stands out has been highlighted. The content of the table will briefly be described before the next main topics of this section - wages in the informal sector - is discussed in a wider context.

Table 4.1, column 2, shows salary paid to workshop workers by the enterprise. EM-1 was not willing to identify the salary of his young apprentice. EM-2 mentioned that he paid those of his workers, who did their work in their own home, Q1,000-1,200 per week. However, since the homeworkers, without exception, are paid by the units produced and may be working more than the regular 44 hours per week that is typical for workshop workers, their salaries may not be comparable with the rest. This part of the work force, therefore, has not been included in the table. Column 3 indicates the nature of the entrepreneur's relationship with the authorities. It is very relaxed for all with exception of two that had no contact. For those who had, the liaison meant that their accounting papers on produced goods were controlled a few times per year.

The question of column 4 was included to check the validity, with respect to Guatemala, of the claim made in Rakowski (1994) that many international and national institutions offer financial and technical help to microenterprises in the informal sector. As the table indicates, none of the entrepreneurs in this study had been approached or heard about such initiatives.

Table 4.1
Miscellaneous aspects of the
enterprises contacted

1 #	2 Workshop salary/mth* (quetzal)	3 Contact with authorities	4 Offers of external help	5 Market condition over years	6 Most important problem	7 Standard of enterprise (my assessment)
Clothes						
EM-1	No data	Relaxed	None	Stable	Get employees	Strained
EM-2+	600-700/	Relaxed	None	Stable	Get employees	Very comfort.
EM-4	800	Relaxed	None	Stable	**Competition**	Very Strained
EM-7+	650	Relaxed	None	Variable	Bad work ethics among workers	Comfortable
EL-3+	600	Relaxed	None	Stable	None	Very comfort.
Shoes						
EM-3+	1,000-1,200?	Relaxed	None	Stable	Get employees	Very comfort.
EM-5+	850-1,000	**Absent**	None	Stable	Get employees	Very comfort.
EM-9	800-1,000	Absent	None	Very var.	Capital, competition	Very miserable
EM-10	400-500	Relaxed	None	Variable	Competition	Tolerable
EL-1	No data	Absent	None	Seasonal	None	Comfortable
Carpentry						
EM-6	1120?	Relaxed	None	Variable	None	Comfortable
Food						
EM-8	400-800	Relaxed	None	Very var.	None	Comfortable
Car repair						
EM-11	1,000-**2,000**	Relaxed	None	Stable	Alcohol misuse among workers	Comfortable
EL-2	1,200-**2,000**	Relaxed	None	Stable	None	Comfortable

* 44 hours per week ** See the following text ? Reason for doubt (**)
/ Influence of seasonal sale variations on salary. The salary refer to workshop workers only. For homeworkers, see text.
\+ Indicates a highly successful entrepreneur, as in Table 3.1.

Column 5 shows how the entrepreneur had felt the market situation over the last few years. It is worth noting that the large majority of the entrepreneurs found the market situation for their products stable and quite satisfactory. In my opinion, most of those who raised grievances when they were prodded, most likely belong to that category too. Exception has to be made for EM-9 who was in a semi-permanent bad economical situation because he could not raise funds to buy leather for his shoe production and EM-4 who carried a significant debt due to a fraudulent

business relationship. Others, due to the kind of production they did, experienced a variable market situation (EM-8).

Column 6 indicates what the entrepreneur experienced as his main problem (without being prodded by me). Even though only four entrepreneurs explicitly mentioned the problem of finding employees as their main annoyance, a large majority brought it up as a prevailing headache. To which extent this was due to a tight labor market in general, unreasonable demands by the employer for previous relevant practice, salary offers below the expectations of the job seekers, or a combination of these, I was not able to determine. The hard-pressed entrepreneurs, i.e., particularly EM-4 and EM-10, not to mention EM-9 who was out of business when we met, complained about the competition from other producers as their main problem. I will return to their situation when I discuss productivity factors in Chapter 5. The complaint of EM-7, bad work ethics among his workers, tells more about how he looked upon and treated his workers than about the workers themselves. He ran what most likely could be called a sweatshop, paid miserly wages and had a tense relationship to his workers, who all were women, while he himself was doing quite well economically.

Column 7 indicates how the entrepreneur's general economic situation and material standard subjectively was judged by me. This information has been translated into a sign '+' in column 1 of all the tables with the same lay-out as Table 4.1 and was referred to in the discussion of the data of Table 3.2. Interesting to observe was that there was a close correlation between the degree of self-confidence - and at times, proudness - expressed by the owner in his encounter with me and my assessment of the success of his enterprise. It is typical that EM-4 who was not in a good economical situation, was the only one who worked intensely while I carried out the interview. With exception of EM-3 who had a tendency to inflate the image of himself, I increasingly allowed the conduct of the entrepreneur, when he introduced me to matters I could assess independently, to influence my confidence in other information he gave me, which not so easily could be verified. In the following I will discuss how my numbers on salaries as given in Table 4.1 stand up against other data that have been reported. The size of the sample of my study is too small to establish a general conclusion on the wages in the informal sector of the city of Quetzaltenango. Also, my numbers has a spread which, I believe, is in part due to conscious desinformation at the hand of the entrepreneur and in part - more important - due to seasonal variations as a result of oscillations in market demand. However, it will be shown that my data on salaries are solid enough to allow for qualitative generalizations.

An analysis of the data of Table 4.1, column 2, shows that there is a clustering of values between a low monthly salary of Q650 (refer EM-7) and a high salary into the interval of Q850-

Q1,000. The values of EM-3 and EM-6 are excluded for reasons given in the text It is worth comparing the salary level found in my data with the salaries of workers in 269 formal industries in the Region VI of Guatemala, reported by Vital (1997:23). Vital calculates that 43.6 percent of these workers earned Q401-Q600, 25.7 percent Q600-Q800, 14.1 percent Q801-Q1,000, 7.1 percent Q1,001-Q1,200, 4.1 percent Q1,201-Q1,400, and 5.3 percent Q1,401-Q2,600 per month. This comprises the full work force, meaning that nobody earned above Q2,600 per month. With a supposed salary compensation of half the annual inflation of 8-10 percent per year the last two years, I will use a value of 5 percent per year, a large part of my salary data compares well with the first and largest salary bracket in Vital's data. One may conclude that on this very limited data - all precautions considered - that the labor salaries of the informal sector in Quetaltenango are comparable with labor salaries of the formal sector of the region. It is worth noting that a number of studies listed by De Oliveira and Roberts (1994:58), mentioned in Chapter 1, conclude that in Mexico by the 1970s there were only marginal wage differences between informal and formal workers.

There is quite a good overlap between my data in Table 4.1 and the independent data on salaries in the informal sector of Quetzaltenango given in Table 4.2 (courtesy of Lic. Rossana Fernández), strengthening the over-all confidence in my results. Inquires I did supported the information I had been given by Lic. Rossana Fernández. If my data in the high end, those in the bracket of Q850-Q1,000, should reflect high values due to seasonal-dependent wages, something I will discuss in connection with the take-home earnings of EM-2, the average salary over the year for these values would be lower and results in a near-perfect match between the wage values of Tables 4.2 and 4.1 on an annual basis. Unfortunately, the information if this is the case, was not available to me.

One may speculate if a contributing factor in closing the gap between the formal and the informal labor cost in Quetzaltenango is a tight labor market, something most of the entrepreneurs in this study complained about. However, since the unemployment in Guatemala is high - numbers in the range of 25-30 percent and above have been quoted to me and Q'uo' Kumatz-Menmagua (1999:27) states that 47.3 percent of the Guatemalan workers are unemployed or under-employed - a buyer's market rules, implying that the labor market is not determined by supply and demand. In addition to low salaries, workers in the informal sector face the ever-present threat of job insecurity.

The discussion on the take-home earnings of entrepreneur EM-2 that follows, will bring up the question whether or not seasonal fluctuations in sale of the enterprise's products have influence on the salary of informal workers. This study will conclude that is does. In my

interview with EM-2, he gave considerable higher values for the salaries he paid his workshop workers than what the workers themselves told me when I paid the workshop a surprise visit without the presence of EM-2. I have explained the discrepancy in the information I was given at this occasion by proposing that EM-2 pays sale- or seasonally-adjusted wages and that the two parties informed on the salary in the workshop with reference to different times of the year. I found no reason for why the EM-2's workshop workers should give me numbers for their salaries that was *higher* than what they received. However, I believe that it is quite likely that EM-2 may have been tempted "to look good" in the eyes of the interviewer and inflate his numbers for that purpose.

That informal salaries should be linked to the demand of the market are not unexpected when the idea first is born. From the employer's point of view that scheme may be seen as a logical extension of tying the salary of the worker to the worker's productivity, particularly in the context of the merciless and exploitative economic climate that rules in the informal sector. Unfortunately, the academic literature leaves the impression that fixed salaries is the rule. The reason may be that the way the uninformed interviewers phrase their questions, as I did myself initially during the fieldwork of this study, determines the outcome of the inquire.

Trying out my new insight in later interviews, I got support for my assumption that season-dependent salaries indeed were used. For example, EM-8 made clear that she paid salaries according to the production of her enterprise, i.e., in response to the market demand. She paid as low as Q400 per month in low-activity months and a high of Q800-Q1,000 in busy months. In addition she would respond to swings in the demand of the market by hiring and firing personnel, while keeping a permanent core of family members on her payroll. My sample is not large enough to offer an iron-clad conclusion on how wide-spread the use of sale-dependent wages is, but the beautiful logic of the scheme, seen from the informal employer' standpoint, would indicate that it probably is wide-spread

The discussion of this section transmits two strong messages: first, in spite of the Maya entrepreneur's attraction to the ideas of a Maya identity, something I will document in Chapter 6, there exists no ethnic solidarity between the Maya entrepreneur and the Maya worker in business matters. The Maya worker is uncompassionately taken advantage of by his Maya - and, supposedly, also his Ladino - master in the form of low wages, hard work discipline and job insecurity. And, secondly, the entrepreneur who uses sale or seasonally adjusted wages, lets the workers feel the full impact of the seasonal fluctuations either by reductions in salary or by lay-off - or both. My impression was that this situation is more the rule than the exception, both laterally (among different economic activities) and vertically (both small and large enterprises).

To quote salaries in the informal sector as, say, the top and bottom earning paid at a set time within a certain economic activity, does not make sense if the information does not identify to which extent external factors make the salary bracket oscillate during the year. Due to lack of capital and therefore the abhorrence of tying up capital unnecessary, the practice of producing for storage in the low season, was not much used in the informal sector of Guatemala.

It was mentioned earlier that Wormald and Rozas (1996) had reported from Chile that garment workers earned the least in the informal sector. A close look at the salary numbers of Table 4.1 indicates that one may draw the same conclusion for Guatemala, ignoring the seasonal aspect discussed above. The clothes producing entrepreneurs (EM-2, EM-7 and EL-3) dominates the low end of the reported salaries, together with EM-8 who, however, paid salaries from Q400 to Q800 (and sometimes more) and EM-10 who had low productivity in his enterprise and therefore(?) paid salaries well below his fellow shoe entrepreneurs. EM-4, paying salaries of Q800, is the only one of the clothes entrepreneurs who is at the level of the shoe producers - with the aforementioned comment on EM-10 in mind.

I will later show that while the clothes activity pays the lowest salaries, it is also the activity sector where the take-home earnings for its entrepreneurs are distinctly the highest among the five sectors that were sampled.

As a backdrop for the discussion on salaries in the informal sector and a comparison between wages in the formal and the informal sector, an overview of salaries in different formal positions in the region of Quetzaltenango is given in Table 4.2 which follows.

All the entries in Table 4.2 refer to the formal sector, with exception of the first. Positions in banks are attractive, not the least because of the fringe benefits, but superior positions in banks are traditionally paid low in comparison with similar ranked governmental jobs. The table shows that the Government takes well cares of its employees, offering them good salaries, pension and long vacations. The difference between salaries for teachers in private and public schools is glaring. As one would expect, the salaries in the informal sector are the lowest, though, this study has recorded salaries even lower than those reported here.

EARNINGS AMONG INFORMAL ENTREPRENEURS

The entrepreneurs contacted in this study gave no direct indications of their own personal take-home earnings. However, using the production data that I got from the entrepreneur and combining these with other information, gave a reliable basis to offer estimates of the profitability of some of the enterprises. Data I got from five of the entrepreneurs were extensive and coherent enough, or could be controlled by other sources, to estimate their annual take-

home earnings. The calculations are given in the following subsections. With reference to the term *take-home earnings* it is emphasized that expenses like cost of housing, electricity, taxes etc. have been ignored in the calculations. With exception of taxes, none of these numbers are known. The reason for excluding the one that could have been a significant expenditure, the cost of housing, is that all the interviewees worked in their own housing and had no significant debt (with exception of EM-4, on both counts), meaning that their housing already had been paid for. The other expenses are deemed to small to have any impact on the results. The calculations which follow, lean strongly towards a *conservative* estimate of the take-home earnings. The entrepreneurs' information has been used, but in some cases the estimates build on 'common sense' assumptions whose full relevance to the individual case could not be verified.

Table 4.2
Examples of salaries in Quetzaltenango in mid-year 1999,
quetzals/month (Source: Lic. Rossana Fernández).

*	Workers in the informal sector	Q600 - Q800
	No benefits. Salary dependent on the individual's productivity.	
	May depend on seasonal variations in the demand of the market.	
*	Clerks in banks	Q1,200 - Q1,400
	Two weeks' paid vacation	
*	Bank superiors	Q2,000 - Q3,000
	Traditionally, a restricted salary	
*	Teachers, public schools	Q1,400 - Q1,800
	Health service offered and 2 months' vacation	
*	Clerks: municipality/government	Q800 - Q1,200
	Work hours 8:00-12:00 and 2:00-4:30	
*	Superiors in the government	Q2,000 - Q6,000
	The upper level may supervise 30-40 persons	
*	Policeman (*Policia Civil*)	Q1,500 - Q2,000
*	Police superiors	around Q3,000
*	University professors (regular)	Q2,500 - Q3,000
	Licenciado (i.e. a US Bachelor) or a Master	
*	Doctors and dentists, government	around Q6,000
	Professionals will have private practice on the side.	
*	Parliament representative	Q20,000 - 24,000

COMMENT: The rate of the quetzal at mid-1999 was Q6.70 to a US dollar.)

Take-Home Earnings Of EM-1 (Low-Quality Sweaters)

An estimate of the monthly take-home earnings of entrepreneur EM-1 and his wife combined, indicates a net gain (after labor and material cost of their products) of Q3,389 (= $464) per month, equivalent to an hourly salary of Q9.63 per hour in a 44-hours workweek. On an annual basis, the take-home earnings is Q40,668 (=$5,571). These are: EM-1 has no more than three of

his four knitting machines in operation at any one time; the workshop works at 50 percent efficiency in a 44-hours workweek; only three of the 3½ workers are effective; it takes one hour or less to make one sweater (source: EM-1); the hired hand gets a salary of Q650 per month; the average sales price for the sweaters in the shop is Q90 (source: EM-1); the material cost is 15 percent of the shop price; and the entrepreneur receives 20 percent of the shop price after material cost (Lic. Fernández's estimate).

The numbers imply a production of 66 sweaters per week, each of a gain, before labor cost, of Q15.30. That the above assumptions indeed indicate a conservative estimate, is shown by the fact that EM-1's gain on the hired hand is not more than 107 percent of the hand's salary. EM-1's economic situation is better than marginal, as Table 4.2 shows, but he generates no economic surplus.

Take-Home Earnings Of EM-2 (Padded Jackets/Suits)

EM-2's workshop had 8 workers, including two assistants, who made only padded jackets. Assuming, as in the calculation on EM-1's operation, that the staff of (effectively) 6 workers are productive only half the time, each making a jacket every two hours (I was told it varies between one and 1½ hour depending on the design) during a workweek of 44 hours, the weekly production will be 66 jackets. The range of the shop price for the jackets is Q180 - Q250, depending on the quality of the material used (I will use Q200), which gives a gross sales value per week of Q13,200. From this has to be subtracted the material cost per jacket (range: Q25 - 50; I will use a high average cost of Q45 to include other possible costs, giving a weekly material cost of Q2,970) and the salary of the worker (salaries are Q600-Q700 per month; using an average of Q670, the weekly cost of the total staff of 8 persons is Q1,340). This estimation concludes that the owner's take-home earnings per week from his workshop is Q8,890 on an average production of 66 padded jackets per week, after salary and material costs. From the sale of an average jacket, the workers will get Q20 and the owner Q135. Even when the market demand, in the low season, would not allow the owner to maintain a sale of more than, say, one half of that, i.e., 33 jackets per week, while keeping his work force, he still would carry home Q3,775 per week. In this case, the workers, assuming a fixed salary, will take out of each jacket sold, Q41, and the owner's gain per jacket drops to Q114.

The discrepancy between the information given by EM-2 and by the workers on the salary of the latter, may be explained by the possibility that, perhaps, the salaries are depending on the variations in the market demand, and that the parties gave the salary with reference to different times of the year - EM-2 with the possible motivation of looking good in the

interviewer's eyes. The time of my second visit to EM-2's enterprise, in the middle of the summer in Quetzaltenango, was obviously low season for padded jackets. Supporting my assumption of a demand-dependent production, the worker I talked with, said that the time before Christmas was very busy. That is the time when the temperatures may dip below freezing and padded jackets are back in vogue, though they are useful around the year due to Quetzaltenango's location at 2,300 meters.

From another workshop that also produced padded jackets, I was told that a worker would make 12-14 jackets per week and earn Q20 per jacket, giving a salary of Q1,040 per month in average in the case of 13 jackets per week. That is a productivity higher than implied by the example above, where the six (effective) workers make only 11 jackets each per week in the high season, and even have the support of two assistants Using that salary scheme on EM-2's workshop instead of fixed salaries, EM-2 weekly take-home earnings in high season (66 jackets) would be Q8,575, and in low season (33 jackets) Q4,120. It is assumed that EM-2 pays the two assistants out of his gain. The workers' salaries will swing from Q1,040 in the high season to Q520 in the low season. These last estimates differ with, respectively, -3.5 and +9.1 percent from the numbers calculated by the other salary scheme and is close enough to support the previous estimation. To get a conservative estimate of EM-2's annual take-home earnings, I will use the first numbers.

Assuming that EM-2 has four months (16 weeks) with high sale and eight (36 weeks) with low, his take-home earnings in a year from the workshop alone, is Q278,140 - equivalent to $38,101 (Q7.30 per $, as of June/July 1999). As indicated, this is a highly conservative estimate, but it builds on a number of assumptions which can not be verified. Particularly the assumption that EM-2 is able to sell his production, play in. However, even with considerable errors in the assumptions used, it is obvious that there is room for a significant capital accumulation in workshops of EM-2's kind.

The four workers who work for EM-2 and make suits in their homes - all Maya men, 25-30 years of age - are paid, similar to the workshop workers, salaries according to their productivity and their specialized skills. They probably put in longer workdays and earn more than the average workshop worker; I will use a monthly pay of Q1,000 per person. The shop price of a suit is Q600-Q1,200 (I will use Q800 per suit), depending on the material used, and the material cost could be from Q150 up to Q3-400 (I will use Q300 per suit). It takes 1-1½ days to make a suit (I will use two days). Using these numbers, the work team of four produces 10 suits per week with a total shop price of Q8,000. Subtracting weekly material cost (Q3,000) and salaries (Q1,000), the take-home earnings for the owner for this activity is another Q4,000. In

the low season, with a production of, say, 6.67 suits per week, assuming that suits are less seasonal dependent than out-door jackets and that EM-2 keeps his staff at fixed salaries, the weekly take-home earnings from this part is reduced to Q2,329. Using the same scheme as applied to his workshop, i.e., that the owner has four months of high sale and nine with low sale where the production drops to two-third, the annual take-home earnings from this branch of his enterprise would amount to annually Q138,528 - equivalent to $18,976. The precautions addressing his workshop earning applies here as well, and even more so since the data on this part is even more inaccurate. The total annual gain of EM-2's enterprise sums to $57,077.

The numbers above show that the cost of raw materials, not wage outlays, even in the low season, is the largest operational expenditure of this enterprise, in contrast to the general conclusion made by Watanabe (1983:178).

Take-Home Earnings Of EM-5 (Fine Shoes)

As in the case of EM-2, the *hypothetical* income of the enterprise will be calculated based on the known production numbers. Sale numbers are not known. The workers are paid per unit and most are paid up towards Q1,000 per month, depending on their performance. One worker is paid as low as Q850. The enterprise has a stable production of 125 pair of shoes per week, which are sold in mid-sized shops in Quetzaltenango. The price EM-5 gets for his shoes is, in average, Q80 per pair. He mentioned that the shop price was Q140 for men's shoes, less for children's shoes. The mix of men's, women's and children's shoes is not known. If it takes ten persons to produce 500 pairs of shoes per month, and each worker is paid, say, in average Q950 per month, the worker gets Q19 out of each pair sold. (This matches the information of EM-5; he mentioned Q20 on top of his head.) The material cost varies greatly, from Q50-60 for regular all-leather men's shoes, and downwards for quality shoes for women and children, which are smaller and therefore require less material. I will use an average material cost per pair of shoes of Q45. In conclusion, of the average shop price of Q140 for a pair of shoes, the shop takes Q60 (43%), the worker takes Q19 (13.6%), and EM-5 takes Q16 (11.4%). Compared with EM-2's profit level, this is pitiful. From the information, it can be shown that each pair of shoes requires 3.2 man-hours and that the hourly salary of a worker is Q5.94 (=$0.81).

This gives EM-5 and his wife a gross take-home earnings - after salary and material cost - of Q2,000 per week, equivalent to an annual income of $14,247. Since EM-5 stated that he experienced a stable market, no seasonal variations in sale are accounted for. The precautions called for earlier in assessing these data applies here, as well. As was the case with my estimate on the take-home earnings in EM-2's enterprise, one has to conclude that an opportunity exist

for accumulating capital.

Take-Home Earnings Of EM-10 (Low-Quality Women Shoes)

The seasonal fluctuations of the sale of EM-10's production of women's shoes are not shown, but the average production over the year is 30 pair of shoes per week with a sales price of between Q40 and Q50 (I will use Q45). In the following it is assumed that the production of EM-10's workshop is handled effectively by 3 workers, while EM-10 himself tends the shop. Assuming a normal workweek of 44 hours, the gross sales value is Q1,350, and each pair requires 4.4 hours to make. EM-10 paid salaries between Q100 and Q125 per week to his workers; I will use a salary total per week of Q350 since the staff consisted of one young man, presumably less experienced, and two middle-aged workers. The price of raw material of each pair of shoes is set to Q14. From these numbers EM-10's average weekly take-home earnings is Q580, i.e., per month Q2,320 - on an annual basis Q27,840 (=$3,814). Giving EM-10 a salary equal to his workers (Q125 per week), each person (now including EM-10), in average, contributes to the gain of EM-10 with an amount of Q114, i.e., 96 percent of their salary. In practice, the number is, probably, somewhat lower since nothing of EM-10's time in the production has been accounted for, making the other workers seem more efficient. Assuming that EM-10's family have no other incomes, EM-10's statement that he can not afford to invest in machinery, make sense.

EM-10 was constrained by a number of external factors. One of them was that any increase in production, probably, could not be sold in his present situation. His market niche was saturated. Secondly, his products could not compete with those of either EM-3 or EM-5 due to significant lower quality both in construction and material.

Take-Home Earnings Of EL-3 (Ceremonial Dresses And Shop Sale)

EL-3's work force consisted of four workers, besides himself, serving customers in his two shops, and three workers who made bridal and other ceremonial dresses on full time in his workshop. The production time of a bridal dress was stipulated to one day (I will use 1½ day), its price was on the average Q1,500, and the price of material was around Q500. EL-3's workers were paid Q150 per week. Assuming 50 percent productivity of the three workshop workers, El-3's weekly take-home earnings on his workshop activity in high season, after salaries and material, is Q4,550. Assuming that his low season is characterized with a drop in demand of 50 percent, the weekly take-home earnings then would be Q2,050. Assuming 4 month (16 weeks) of high season and 8 months (36 weeks) of low season, EL-3's take-home

earnings from his workshop on an annual basis would be Q146,600 (=$20,082).

There is no way to estimate the value of EL-3's sale of the female clothes he buy from our-of-town producers, but there is no reason to believe that he sells less of these products, measured in money value, than the value of EM-2's sale of padded jackets. EL-3's two shops have an equal or better location than the one of EM-2, his shops have a larger variety of products which should indicate a better protection against seasonal variations, and the size of his sales staff, five persons including himself, signals a high activity in the shops. The value of EM-2's workshop production, after material and salaries, was on an annual basis, adjusted for seasonal variations, Q278,140. Considering that the shop which manages the sale - in this case EL-3's shop - reaps the same 43 percent EM-5 had to pay the shops to have his things sold, EL-3 may have a gross take-home earnings of around Q119,600 from his retail sales of other producers' products. From this has to be subtracted the salaries over the year to his one shopkeeper (Q1,000 per month) and three shop clerks (each getting Q600 per month) - i.e., an annual salary cost of Q33,600 - giving an estimated annual take-home earnings of Q86,000 from his two shops. In total, EL-3's take-home earnings from his enterprise, workshop production and retail sale combined, may be in the range of Q232,600 (=$31,863). Both parts have been adjusted for seasonal variations, the retail sale indirectly, through the use of EM-2's data.

CAPITAL ACCUMULATION? YOU MUST BE KIDDING!

Previous researchers who have studied capital accumulation in the informal sector, but concluded that it is absent or is of little significance, may have been fooled by the fact that there exist very few, if any, outer signs of prosperity in the informal sector. Successful entrepreneurs may have an above-average house standard with a computer and more than normal household machinery, and even a sexy car, like EM-3, but none of it will be provocative flashy. Seen from the street outside, nothing will indicate a situation of prosperity. In the following will be used some of the estimations of the entrepreneurs' take-home earnings to analyze the potential for capital accumulation in the informal sector of Quetzaltenango.

What is hidden in the Mattresses?

In itself, nothing of what has been said above can explain what happens to the economic surplus accumulated over years in some enterprises. The academic literature offer, at best, only speculations. I had only limited success in getting specific answers to my pointed questions on where the obviously successful entrepreneurs invested their surplus. Even my hypothetical

questions were shrewdly circumvented, or so I had to believe. However, some of the better-offs were amused by the topic and became quite helpful when their own activity was put in the background. From what I saw in the different enterprises I visited, it was obvious that value was generated above the level needed to maintain the entrepreneur and his family. Two examples will be given in addition to those which have been addressed in the subsections above.

EM-6 had operated his carpentry workshop for 25 years and started out alone, with "two empty hands". Over the years he built up his staff; after five years he had three employees, and slowly he had been able to buy machines. Quite recently he had done major extensions on his family's large and comfortable house that was part of his yard. I asked him what it would cost him to replace the installations and machines in his workshop today, and he proposed Q75,000 - not including the real estate of his property. I asked him if the value of his workshop had increased in the last three years and he said yes, referring to the upgrading which regularly went on. Another entrepreneur, EL-1, would claim that he earned only Q6-Q8 per pair of shoes his enterprise produced, on a production of 24-30 pairs per week, indicating a monthly gain as employer of around Q864, above his hypothetical workshop salary which I put at or near the level of that of his employees'. Indicating that there was more to his economic activity than what met the eye, he easily admitted that he had built a fairly spacious two-store concrete building for his workshop and family of five for his earnings from the enterprise over the fifteen years it had operated.

Building on a number of first- and second-hand sources, among the latter, Lic. de Jerez and Lic. Fernández, the following picture of how an economic surplus may be administrated, emerges. First, profit in the informal market does only to a modest extent go into consumption. There are reasons for this. One is to evade a possible unfavorable attention from the authorities and the environment in general; another factor, probably more important, is that consumption is not a governing attitude in these parts of the society. Second, a small part may be kept in bank accounts, less with savings in mind, primarily to facilitate financial transactions. Third, a considerable part will go into expanding the workshop, replacing and upgrading old machines, and adding new ones. Supposedly, that is were the fruit of EM-5's capital accumulation primarily will be invested. And the work and living quarter will also get their shares, as the cases of EM-5, EM-6 and EM-8 all exemplified. The entrepreneurs who maintain a solid success over time, may, at one time or another, either diversify into new enterprises which can benefit from their core activity, and/or buy real estate. The latter may serve as collateral for future deals, as an insurance for the future, or as a long-term speculation if it is invested in plots in a suburb with growth potential. If the real estate is in the form of housing, it may be rented

out and earn interest on the invested capital. This option was EL-3's favorite. Land and real estate investments in the countryside is not registered and is therefore, at present, a safe way to hide a surplus. The situation is different in urban areas, like Quetzaltenango, but the chance that the authorities ever will get their act together and link a workable register on land- and property owners to a taxation scheme is slim. Another option for making windfall money grow, may be exemplified by the preferences of EL-2, who owned a workshop for cars together with his father. He would buy crashed cars and rebuild them for a substantial profit. The logic which governs the management of a surplus, is a logic with the purpose of securing the present and improving the future. The short-term pleasures always have to give in to the long-term gains. Given the memories of possible hardship in earlier years and the social conditions of the surrounding society, this makes sense.

Taking Command of the elusive Factor: Defining a Capital Accumulation Model

The results of this study make clear that capital accumulation - here understood as that part of the entrepreneur's take-home earnings that is above the maintenance cost of his family and the equipment of his workshop and the cost of the production - indeed takes place in the informal sector of Quetzaltenango. But how large is the accumulation? And how many enterprises contribute?

Considering the standard of EM-1's and EM-4's working conditions, it is unlikely that the economy of their enterprises gave room for more than maintaining their economic situation. The situations of EM-2, EM-5 and EL-3 are a totally different ball game as estimates of their take-home earnings earlier indicated.

The capital accumulation is largest in the large enterprises, but the largest contribution to the total capital accumulation is not necessarily from the group of the largest enterprises, since they are few in number. By the same token, the contribution from the small or medium-sized enterprises - in this context, meaning those with, say, from 4 to 7 workers - is not insignificant. Referring to EM-8's activity that oscillates between having a work force of five and seven workers, it generates a surplus which is part of the over-all capital accumulation. EM-8's situation is supposed to generate capital because she saw possibilities of enough profit to buy a house of her own in the near future and run her enterprise from there.

To assess the total annual capital accumulation in the informal sector of Quetzaltenango, some assumptions will be made. They are summed up in Table 4.3, that follows, or given in the text. It will be assumed that only productive enterprises of four and more workers generate a surplus. This implies that the first three workers of *any* enterprise, do not contribute to the

capital accumulation. Enterprises with *more* than 13 workers (inclusive the owner), i.e., the size of EM-2's enterprise, will not be included. Vital (1999) mentioned that there exist 1785 productive microenterprises in Quetzaltenango with five or less workers. I will assume that all of them are part of the informal sector. Combining this with Sr. Quemé's estimate, quoted earlier, that only five percent of the enterprises have more than 5 workers, that applies to 94 enterprises. In total, there exist 1879 (= 1785 + 94) productive enterprises in the city of Quetzaltenango.

Table 4.3
Assumptions of the model for estimating capital
accumulation per year in the informal sector of Quetzaltenango

a) Enterprises with a working staff of three or fewer workers (including the owner) do not contribute to the over-all capital accumulation.

b) Enterprises with a working staff of four and more workers generate each a surplus which increases linearly with each extra worker employed in the enterprise.

c) Only three entrepreneurs of production in Quetzaltenanango generate a surplus equal to or larger than the one of EM-2.

d) The number of enterprises with more than four workers tapers off geometrically (factor k = 2.72) as the number of workers in the enterprise increases. The value of k is determined by the number of enterprises in Quetzaltenango with more than 5 workers, i.e., 94 [source: Sr. Quemé and Vital (1999)].

e) The assumption of a *geometric* tapering-off of the number of enterprises as function of an increasing work force, up to a maximum of 13, has been extended to include the bracket of enterprises of 4-5 workers**.

* That figure is, in part, determined by the situation of EM-1 and EM-10, both with 3½ workers, who will need more manpower in their production to get out of their economic "subsistence trap".

** To simplify the calculations, the enterprises have been lumped into "employment brackets" of 4-5, 6-7, 8-9, 10-11, and 12-13 workers (including the owner), i.e., ([2n, 2n+1], n=2,..,6)

Estimation of annual Capital Accumulation

Table 4.4 gives an overview of the entrepreneurs' take-home earnings as calculated above and lists the numbers used to determine the linear relationships mentioned in Table 4.3, pt. a).

The table shows one singular point which does not fit my model , i.e., the total annual take-home earnings of EL-3, case a]. The reason is that my estimation of EL-3's take-home earnings gives a very high value relative to the number of workers employed in that enterprise. Extrapolating the value, $5,098, at employment bracket (4,5) to bracket (12,13) would give an estimated total capital accumulation unreasonable high compared with my other data.

Table 4.4
Summary of the entrepreneurs' take-home earnings.

#	Workers (incl. owner)	Cap. acc. work force	Total Annual take-home earnings*	Adj. Ann. take-home earnings* (minus 20%)	Adjustment value for the model linear relationship*
EM-1	3½	0	5,571	--	--
EM-2	13	10	57,077	45,662	45,662/10/5
EM-5	11	8	14,247	11,398	11,398/8/4
EM-10	4	1	3,814	--	--
a] EL-3	8	5	31,863	25,490	***25,490/5/1***
b] EL-3	(4)	(1)	(20.082)	(16,066)	***16,066/4/1****

* All values in $
* * Full enterprise: singular point with value $5,098 in employment bracket (4,5).
*** Enterprise minus commerce part: singular point with value $4,011 in employment bracket (4,5).

The reason is EL-3's unique mixture of independent commerce (where he sell other producers' products in his two shops at a good gain) and the production and sale of highly profitable products (made by the small work force in his own workshop). Taking another tack, i.e., subtracting EL-3's purely commercial activity and analyzing only his workshop of four (including the owner) connected to his shops, does not remove the singularity of El-3's situation as case b] in Table 4.4 shows. His very favorable take-home earnings per worker in his workshop, puts him widely apart from, say, EM-1 and EM-10 - as a comparison of the three entrepreneurs' annual take-home earnings in the table will show.

Table 4.5 gives two estimates of the annual capital accumulation in the formal sector of Quetzaltenango according to the model defined above. One is based on the annual take-home earnings of EM-2's enterprise (equal to $45,662, after subtracting 20 percent for unaccounted expenses), the other on EM-5's annual take-home earnings ($11,398, having subtracted 20 percent). The reason for using two estimates is that it was shown that EM-5 and EM-2 have very different profitabilities, i.e., their take-home earnings per worker do not fit the same linear relationship used in the model.

The number of workers in each employment bracket has been calculated as number of enterprises in the given employment brackets - given by a geometric decreasing series - multiplied by the *median* of workers in the appropriate employment bracket ([2n + 0.3], n=2,...,6). Here is used that k=2.72 for ([2n, 2n+1], n=2,..,6) is equivalent to sqrt (k)=1.65 for

([n, n+1], n=4,...,12). The capital accumulation of each employment bracket is determined as the product of the number of workers within each bracket, multiplied with what each worker in the respective bracket contributes with to the total take-home earnings. The take-home earnings for each worker within each of the set employment bracket, is determined for the two cases shown. The total accumulation in the informal sector is then calculated by adding over all the brackets, n=2,...,6. The results are shown in Table 4.5.

The upper sum in Table 4.5 gives the accumulation at the high profitability case (EM-2) and the lower one the accumulation at low profitability (the EM-5 case). In lack of better information, an averaging of the two numbers has been chosen, giving an estimated total annual capital accumulation of the informal sector of Quetzaltenango of $1,523,201.

The capital has been accumulated by 258 out of 1879 (= 1785 + 94) productive enterprises with a work force of 1,320 workers. In average, each capital accumulating worker generates an added value of $1,154. Assuming an average salary of Q850 per month among the workers in the capital accumulating part of the informal sector, i.e., on an annual basis equivalent to a salary of Q10,200 (=$1,397), each capital accumulating worker, in average, generate a surplus value equal to 82.6 percent of his salary. Since the value generation takes place in the most productive part of the informal enterprises, one must conclude that this is indeed a modest result.

No comparison with published data has been done, since, to this author's knowledge, similar estimations of annual capital accumulation in the informal sector have not been done before. A limited number of sensitivity runs have been done on some of the model assumptions, with results that cluster between 1.35 and 1.65 million dollars. More work has to be done here, but this is not crucial since more important parameters dominate the estimation. Particularly, a relaxing of the quite conservative assessment of the ratio between the length of the good and the bad season of the year and a sensitive reassessment of the unaccounted-for expenses of the model, would easily increase the estimate of the annual capital accumulation with 25-30 percent. Another factor to assess, is the implication that the model is dominated by the profitability data of clothes and shoe production. Both activities are extensive in Quetzaltenango, and therefore possible quite profitable, relatively speaking, a factor which call into question their representability for the many other and smaller activities contributing to the overall result. However, the findings indicate that capital accumulation takes place, that it is possible to assess it and that it will takes place in other economic activities, as well, given that these represent a fair share of the local *informal* economy.

Table 4.5
Total annual capital accumulation and annual capital
accumulation as function of size of work force of enterprises.

	EMPLOYMENT BRACKETS					
No of workers in work force :	2,3	4, 5	6, 7	8, 9	10, 11	12, 13.
No of enterprises (k=2.72)	0	164.2	60.4	22.2	8.2	3
No of workers (using median)		706.1	308.5	184.3	84.5	36.9
Total number of cap. accum. enterprises: 258						
Total number of cap. accum. workers: 1,320						
Estimate w/EM-2:						
Take-home earnings/employee***	0	913	1,826	2,740	3,653	4,566*
Accumulation per empl. bracket ($)		644,669	563,321	504,982	308,679	168,485
Total: $2,190,136						
Estimate w/EM-5:						
Take-home earnings/employee***	0	357	714	1,071	1,428**	1,785
Accumulation per empl. bracket ($)		252,078	220,269	197,385	120,666	65,867
Total: $856,265						

* Adjusted to EM-2's take-home earnings, subtracted 20 percent for unaccounted-for expenses.
** Adjusted to EM-5's take-home earnings, subtracted 20 percent for unaccounted-for expenses.
*** For part of the work force larger than 3

COMMENTS

This chapter has discussed the data on wages paid by the enterprises included in this study. Even though the sample was small, comparison with other more authoritative data from the region gives strong indication that the data are representative. The data indicate that the garment sector offer the lowest salaries among the five activity sectors of this study and that workers' salaries fluctuate with the demand of the market as well as with the productivity of the individual worker. Estimates were made of the annual take-home earnings for some of the entrepreneurs. In lack of data, some reasonable assumptions were made, particularly on the productivity of the workers of the enterprise and the extent of seasonal variations on the number of units produced by the enterprises. Some of the estimates of the entrepreneurs' take-home earnings were used to estimate the annual capital accumulation among productive enterprises in Quetzaltenango. The model being used, builds on a number of assumptions that are clearly identified and open for debate. The genuinely new contribution this approach offers to the research on informal economies, is that it has been shown that it is possible to estimate the capital accumulation taking place in the informal sector, using very limited data. The assumptions of the model used

have been clearly stated and are open for debate. It is hoped that the capital estimation model forwarded here will be followed up by others such that the idea and its assumptions can be assessed and eventually refined.

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CHAPTER FIVE:
Zooming in on the Informal Sector

The discussion in the previous chapter on aspects of the informal sector that are addressed by my findings, will continue and be completed here. I will detail a number of topics that has only cursory been approached in the academic literature before, prominently among them is the question to which extent operators in the informal sector use the formal lending institutions. Other topics addressed are the questions to which extent the public taxes productive enterprises in the informal sector and which factors influence the productivity of the informal productive enterprises.

LENDING CONDITIONS IN QUETZALTENANGO

Surprisingly, the cacophony of different ways to raise loans and the difficulties in succeeding, that the literature reports upon, was not reflected in the findings of this study.

Lending Pattern

Table 5.1 reports on some of the financial and economic aspects of the enterprises contacted in this study. Column 2 indicates how the economy of the enterprise was organized relative to the economy of the entrepreneur's family - kept separate or mixed. Column 3 reports if the extended family was called upon when loans were needed. Column 4 shows what kind of financial institutions were used, alternatively if financial needs were covered internally, i.e., from the profit of the enterprise or if lending was used at all. Column 5 gives the "official" debt of the enterprise. Column 6 reports the total amount paid in taxes to the municipality. And column 7 reports if the enterprise offered any social benefits to its workers.

I will discuss the data of Table 5.1 in the sections that follow. I will emphasize the financial aspects only, primarily the relationship between the enterprise and the public lending institutions referred to as the national NGOs. Contrary to public and private banks and the traditional lending institutions, these organizations specializes on loans to small enterprises and make no distinction between formal and informal units. In Guatemala, they came into play for 10-15 years ago and have been increasingly active since.

Table 5.1
Financial aspects of the enterprises

1 #	2 Fam. Econ./ enterprise economy	3 Family used w/loan	4 Financial institution used w/loan	5 Debt at date (quetzal)	6 Taxes/yr estimate (quetzal)	7 Benefits for workers
Clothes						
EM-1	Mixed	No	National NGO*	0	250-300	None
EM-2+	Mixed	No	National NGO	0	3,000-4,000	None
EM-4	Mixed	No	National NGO	**26,000**	10% of prod.?	None
EM-7+	Separate	No	National NGO	0	(Data lost)	None
EL-3+	Mixed	No	Internal financing	0	10,000	None
Shoes						
EM-3+	Mixed	No	**Bank?**	0	5,000	None
EM-5+	Mixed	No	National NGO	0	**0**	None
EM-9	Mixed	No	National NGO	0	0	None
EM-10	Mixed	No	No lending	0	1,500	None
EL-1	Mixed	**Yes**	National NGO	12,000	0	None
Carpentry						
EM-6	Separate	Yes	No public lending	0	10% of prod.?	None
Food						
EM-8	Mixed	No	National NGO	0	1,500	None
Car repair						
EM-11	Separate	No	National NGO	0	10,000	**Yes**
EL-2	Mixed	No	No lending	0	4,000-4,500	n/d

* Institutions like ADEPH, FUNDAP, FUNDESPE, *cooperativas* or other "low-cost" lending solutions (as alternative to banks).
? Doubtful

As mentioned earlier, Tokman and Klein (1996) indicate that tough lending conditions on formal loans may prevent informals from using this opportunity. Guatemala would be such a case since the "low-cost" lending institutions (defined in Table 5.1) in mid-1999 had a interest lending rate of around 20% p.a., well above the annual inflation rate but much lower than other public lending organizations (Prosigua, 1998). The extensive use of formal lending institutions by informal entrepreneurs in Quetzaltenango, as exemplified by the data of Table 5.1, shows that the situation Tokman and Klein observed, is not valid in the area of this study. A large majority of my interviewees was familiar with the national NGOs and had frequently used the national NGOs themselves; some had taken up to 3 loans over the last 8-10 years. However,

they were all well aware that formal lending was costly. When they took up loan - normally in the range of Q5,000 to Q12-15,000 - they paid back as fast as they could, usually within 8-10 months depending of the amount, even when the loan matured over much longer time. From Table 5.1, column 5, it is worth noting that in spite of that, all the entrepreneurs were without debt, with two exceptions, One of them was EM-4 who, as mentioned, had been unlucky in his business dealings and EL-1 who had a tolerable debt of Q12,000 he thought he would have no problem in repaying within a year's time.

My impression that formal lending was very much part of the financial strategy of operators in the informal sector, was confirmed during my frequent visits to the offices of ADEPH, one of the middle-sized national NGOs one of my interviewees was using, while I tried to get access to their Maya entrepreneurial clients. I was surprised about the size of the clientele I met in the reception - humble people worn down by a long life's hard work and obviously of small means, applying for loans or making down-payments on loans they had received.

The alternative for the most successful entrepreneurs was to finance their needs partly or fully from the profit of their enterprise; EL-3 and EM-2 seemed to be the only two permanently in that favorable category. The well-off entrepreneurs were openly reluctant to lend money, partly because of the cost, but, probably more important, because they had to put up their real estate property as collateral - indicating that they were not blue-eyed naive that their successful business activity would grow into Heaven. If they could cover their needs from the surplus generated within their enterprise, they would use a mixture of loan and profit or delay the investment. The purpose of contemplating a loan seemed to be, first and foremost, purchase of machinery, new units or an upgrade of what the workshop had at the moment. Secondly, purchase of raw material for their products was often mentioned as a reason. Medium grade leather for shoes would cost around Q1,500-Q1,700 a bale and was often imported, indicating a time delay and therefore implied tied-up capital since the order always had to be paid up front. I was my impression that only surplus from the enterprises, never loans, would be used for upgrading the private living quarters, but even then such matters had a low priority. The only one who had access to loans with his family was EM-6; he had no need for the NGOs. EM-4 was deep in debt because of an unfortunate business transaction where he had not been paid for a large delivery, and EM-10 evaded loans due to a low-productivity workshop and an tight market situation for his products. EM-3's claim that he was using the more expensive lending alternative, bank, was not trustworthy.

Tokman and Klein's (1996) observation, referred to above, is seemingly hard rock

common sense - “Do not borrow when the price on money is high!”. My experiences with the operators in the informal sector indicate that they are far more refined than this and most know the possible gain of every *centavo*. It is *not* the price of money that counts, but the gain on the extra produced units which is crucial. According to my background research, EL-1 gambled over years at the rim of economic disaster, but ended up as a well-off man, by local criteria, today owning property and no debt.

My data indicate that the situation in Quetzaltenango also was found to be very different. from what De Oliveira and Roberts (1994) reported from a pilot study carried out in Mexico City in 1987-88. They conclude that the informal sector was one with few links to the formal finance sector and with little appreciable capital. However, as mentioned, most of the entrepreneurs I interviewed had experiences with the financial institutions, were well informed about the market prices on loans and, obviously, kept the option of lending on hold without rejecting it.

The use of banks and bank accounts - both checking and savings accounts - were common among all the entrepreneurs, but only for short-term payment transactions. A surprisingly high number of the entrepreneurs were quite open about the fact that even when they had bank accounts, they preferred to work with cash. While this undoubtedly can be explained, in part, as an effort to prevent bad checks, it may be part of the general strategy in the informal sector to keep as much as possible of one’s economic transactions non-traceable. EM-8 who delivered large orders of *pan tipico* over all of Guatemala, stated that she always worked with cash and would not accept checks, even when she worked with city officials. Given that her friends who took hand of the transport of her products for her had to return back to Quetzaltenango, supposedly often with large sum of money in their pockets, indicates that the advantages of working with cash are deemed considerable.

It has already been indicated that the lending pattern reported by Prosigua (1998) from Guatemala City, with data from 1997, shown in Table 1.1, was very different from the pattern observed in Quetzaltenango. First, none of the entrepreneurs in Quetzaltenango had taken up loans to get started, even when they initially struggled for years with their economy. Secondly, savings were not a financing source among the interviewees of this study, contrary to what Prosigua (1998) reports. All the interviewees claimed that they had started out with the bare minimum, with exception of EM-5 who had been given a sewing machine from his family that worked in the same trade. And, third, loans from family and friends, that play a major role in the start-up phase of the enterprises and even more so during the operational phase, according to PROSIGUA’s findings, were absent in Quetzaltenango. Only EM-6 had that as his most

important - in fact, the only - financing source.

Formal lending Conditions

To get an understanding of the conditions in the lending market in Quetzaltenango, I contacted some of the financial institutions in Quetzaltenango. For comparison with the data that follow, it should be mentioned that the effective interest on a saving account in the private *Banco Uno*, Quetzaltenango, in June 1999, was 7.6 percent for an amount of Q1,500-10,000, 9.2 percent for Q10,000-50,000, 10.3 percent for Q50,000-100,000, and up to 11.3 percent for amounts above. The interests of a regular loan in *Banco Industrial*, Quetzaltenango, which required collateral in real estate, were 28 percent p.a. (as of June 1999). This was the norm among the private banks.

The lending institutions (private or state banks, *cooperativas* like COOSADECO and national NGOs like FUNDAP, ADEPH and FUNDESPE) required one of the following kinds of guarantees for their loans, in decreasing order of priority:

Garantia Hipotecaria, i.e., private property is put up as security for the loan, either in public registered form (version: *Formal*) or as a non-registered version worked out by lawyers (version: *Publica*).

Garantia Fiduciaria, i.e., the security is in the salaries of employed persons who have guaranteed for the loan on the behalf of the borrower.

Garantia Prendoria, i.e., t he security is in machines and other equipment of the borrower's enterprise. This was the option least used, probably because the banks would not be bothered by spending time on off-loading second-hand goods of small value, in case a loan goes bad, in addition to the costs of time-consuming administrative procedures.

As of June 1999 there were 22 formal private lending institutions catering to small enterprises of all kinds in and around Quetzaltenango, indicating that there is a significant market for this kind of services - another indicator that there is a close contact between small enterprises, which are mostly located in the informal sector due to their size, and the financial institutions. For example, the organization FUNDAP, directs its offers to both small and large enterprises and charges around 22 percent per year on its loans. FUNDESPE, of the same category as FUNDAP, also with a focus on small-loan entrepreneurs, charges the same. FUNDESPE, gives loans of minimum Q1,000. There is no minimum for the lending time of the smallest loans, but in practice 1-2 months will do, with a maximum of 36 months. The lending institutions require, as a rule, *garantia hipotecaria*, except for very small loans (Q1,000), and charge the same interest for small as for large loans. The organizations that offer the least

expensive loans are the *cooperativas* (cooperatives) that give loans to small enterprises and activities within agriculture, manufacture and commerce, but only to their members who maintain their membership by small regular savings or deposits. One example of the latter category is the *coopertiva* COOSADECO with 37,000 depositors nationwide. COOSADECO gives small loans (minimum Q1,000) at 15 percent per year on the basis of a saving account balance of minimum Q1,000 over 4 weeks. Larger loans can be up to Q18,000 at 18 percent p.a. and require a *garantia fiduciaria.* Big loans, up to a maximum if Q100,000, also at 18 percent p.a., can be amortized over maximum five years. If the debtor falls behind in his payments, the interest rate will increase and a penalty will be imposed, as experienced by EM-4, who paid 24 percent on his COOSADECO loan. Only as a remedy of last resort will the *garantias hipotecaria* or *fiduciaria* be activated to counteract a default on the loan (source: COOSADECO staff). Except for very small, short-term loans, around Q1,000, all loans required collateral in the entrepreneur's property. Only in exceptional cases would the lending institution accept other types of guarantees.

It is difficult to pinpoint why there exist so large variations among the different lending institutions and that the interest rates are so high, given that the inflation rate of 1997 and 1998 was only - to the best of my sources - 8-10 percent. In my conversations with banking officials, they claimed that the risk on this kind of loans was high and had its price. It needs to be mentioned that the banks had a profit margin of 10 percent and above(!) and are not well equipped for handling loans of the small amounts needed by the informal sector. However, Guatemala has experienced a period some years back where lending institutions that were not guaranteed by the state, like the *cooperativas*, collapsed and left not only the small depositors with a loss, but also the lenders. The lending contracts normally state that the debtor does not have ownership to the property bought for the loan until the loan is fully paid back. A insolvent lending organization may put unexpected obligations on the borrower, who might be a threat to his enterprise.

TAXES IN THE INFORMAL SECTOR

From the data of this study one can conclude that the tax burden imposed on the small enterprises is not an obstacle for capital accumulation in the informal sector. Obviously profitable enterprises, like those of EM-2 and EM-3, paid taxes - regional and national combined - of, respectively, Q3,000-Q4,000 and Q5,000, which is below the shop price value of one week's production (source: EM-2, EM-3). EM-11 claimed that his taxes were Q10,000 per year, but EL-2 who ran a similar workshop to EM-11's, stated that he paid only Q300-Q400 per

month, equivalent to around Q4,200 per year - much on the same level as the other profitable enterprises. Among their portfolio of jobs, both EM-11 and EL-2 would sometimes have jobs with a high final cost price tag, up towards Q40,000, which, however, would require only 3-4 months of work for one person. The small quasi-family enterprise of entrepreneur EM-1, whose take-home earnings per month was estimated above to Q5,571 for the two adults combined, paid only Q250-Q300 per year (source: EM-1). The only person who complained about taxes was EM-8 who paid Q1,500 per year. Given the fact that her business part of the year increased from five to seven persons on full time, her taxes were probably a small expense.

EM-6 claimed, similar to EM-4, that he paid taxes in the form of 10 percent of their bulk sale. Sr. Villagran, the municipal comptroller of Quetzaltenango, denied the existence of such a tax, while another well informed source stated that it existed but was not effective (source: Lic. de Jerez). The control by the municipality is, in general, very lax. Some entrepreneurs would say that they were controlled a few times per year, others that they were controlled more often and then not at all for years. EM-5 had lost contact with the municipality all together. The only entrepreneur who seemed to have been weighted and found too light for paying taxes, for good reasons, was EM-9. EL-3 claimed to pay Q10,000 per year, the same as EM-11. However, he seemed very relaxed about it and pointed out, with a broad smile, that the municipality controller, on his semi-annual visit, did a very superficial job by looking only at the receipts and other paper work he was shown. No background checks were ever made. When asked, all the entrepreneurs in this study denied that they paid bribes to the municipality controllers to soften the tax blow, but strong evidence indicates that this is not an uncommon practice (sources: Lic. de Jerez, Lic. Fernández). The numbers above, seen in light of the need for the new national state institution, SAT, which will be discussed in Chapter 7, exemplifies not only the incompetence of the authorities, but also explains one of the major reasons behind the crisis in public revenues and important sectors like the public welfare insurance schemes Mesa Lago (1991) touches upon with address also to Guatemala, as part of her general discussion of Latin America on that topic.

Table 5.1, column 2, show that the large majority of the enterprises had an economy mixed in with the economy of the entrepreneur's family. It emphasizes the earlier conclusion that taxes or the public authorities are more a nuisance than a burden since even complex shops with up to 12 employees (EM-2) or the multi-faceted activity of EL-3 had no incentive or pressure from the outside to organize the business for the purpose of improved financial transparency. Those who kept separate accounting (EM-7, EM-6 and EM-11) probably did this for personal reasons only. EM-7 was into his second marriage and made clear that he wanted to

keep parts of his life sheltered from his new wife's view, and EM-6 may have had some of his needs rooted in the fact that his eldest son was pestering him with his ambitions to take over the ownership of the enterprise.

Table 5.1, column 7, shows that none of the entrepreneurs I talked with met any of the obligations towards their workers as they were required to according to the public regulations. (I will detail those in Chapter 7.) The one exception was EM-11 who had an accident insurance for his workers, something he was obliged to according to the code of the department of Quetzaltenango. This must be seen in relation to the definition of the informal sector by Castells and Portes (1989) and my discussion of the problems in using it in the practice (Chapter 3). I will return to the matter of public regulation of the department of Quetzaltenango and the Guatemalan state in relation to my discussion of the control group of formal enterprises.

PRODUCTIVITY FACTORS

The profitability of enterprises in the informal sector is increased in different ways. One is by evading taxes, another is by keeping salaries of the workers down. However, as has been shown in the analysis of EM-2 and EM-5's economies above, taxes and the cost of labor play a limited part in the economic pattern of the successful units.

The variety in levels of success among the entrepreneurs sampled in this study, calls for an explanation. For example, the backwardness of the entrepreneurs EM-1 and EM-4, in comparison with, say, EM-2, also a clothes producer, is striking. One possibility could be that the former use less effective machines which, together with other managerial dispositions, reduce their productivity. The case of EM-1's slow, hand-driven, old-fashioned machines, which were the backbone of his enterprise, supports, in part, that hypothesis. From that follows, that even when EM-1 in the past had more employees, as he told me, and may then have enjoyed an economic surplus, he failed to invest in high-productivity machinery. Another observation is that EM-1 and EM-4 are uniquely characterized by the fact that they have the lowest number of employees among the entrepreneurs working in the clothes trade, each only 2½ persons. Failing to increase their productivity, it seems as if their staffs never became large enough to produce sufficient surplus to create an economic momentum for success. Another striking observation from the estimations above was the difference in productivity between the two entrepreneurs, EM-3 and EM-5. A worker in the enterprise of EM-5 used 3.2 hours to make a pair of shoes, while in EM-3's enterprise the production time was 4 hours. It is hypothesized that one of the reasons for the discrepancy may be differences in management schemes they use. In the following I will comment upon some of the factors that seem to determine the

productivity and thereby the potential growth, i.e., success or failure, of the individual enterprise.

Technology

A comparison between the enterprise of EM-2 (clothes) with those of EM-3 and EM-5 (shoes), may indicate that production of clothes in large quantities in the informal sector is more machine-intensive than shoe production in large quantities. In EM-2's work scheme, all the workers (the assistant workers not included) had their own machine, and so had the home workers. The same pattern was repeated in *all* the workshops making clothes, including those of EM-1, EM-4 and EM-7. Thereby value added per unit was higher, profit per unit was higher, and less workers were needed to maintain a certain profitability level. EM-2 reaps the advantage of this situation, first, by producing a share of high-priced units, i.e., suits, in addition to cheaper run-of-the-mill padded jackets. And, secondly, he increases his favorable situation hugely by selling his products in his own shop, thereby pocketing the gain himself at more steps as his products move along towards the consumer, from bulk production to retail sale.

In the case of shoe production - taking place in the workshops of EM-3, EM-5 and EM-9 - the pattern was consistently different but coherent within the trade. In the case of EM-5, where production numbers are available, two factors stand out. First, the part of EM-5's work force working in his workshop, had access to machines, while the homeworkers worked by hand. In the case of EM-3 who hired only homeworkers and did the machine work on the total production alone in his workshop, none of his work force had access to machines.

Presumably, it may be easier to mechanize the clothes trade than the shoe production trade. Mechanizing the handwork in the shoe trade may demand more expensive machines than those that are dime-a-dozen in the clothes trade - actually, the price is Q1,000-Q1,500 for the simplest clothes sewing model - and the shoe trade at present can afford, but that is only part of the story. The productivity of the shoe trade will be kept at bay until the degree of mechanization is increased substantially, either by raising the necessary capital for advanced machinery or by modifying the product such that it adapts to mechanized processing with less advanced machines. EM-5's expressed ambition to have a much larger and fully mechanized work force, seems to indicate that he sees capital as the obstacle, not the technology. That the high mechanization in the informal clothes trade pays off, can be seen from the estimated take-home earnings of EM-2 (clothing manufacture) compared with that of EM-5 (shoe production) - even though there may be intrinsic differences between the two trades which influence the difference in profitability. Each member of EM-2's work force of thirteen (including the owner)

in average contributes with $4,391 to EM-2's take-home earnings, while EM-5's work force of eleven (including EM-5) in average contributes with only $1,298 - a ratio of 3.38. Entrepreneur EM-5 embodied the soul of the true Weberian capitalist when he stated his ambition of increasing his work force to twenty persons *and* equipping them all with machines.

One may argue that the clothing manufacture, perhaps, is offering higher profit, in general, than the shoe trade, thereby reducing the impact of technology as claimed by the discussion above. A simple comparison among operators within the shoe trade itself, say, between the productivity of EM-5 and EM-3, will indicate that that argument is not valid and that there is possibilities for large productivity increases. EM-3 claimed that his workshop produced a pair of shoes in four hours. The calculations worked out on the individual entrepreneurs above, indicated, however, that the time spent in EM-5's workshop was only 3.2 hours per pair of shoes. It is interesting to note that the productivity of EM-3 is not much higher than the one of EM-8. The latter worked under miserable conditions, together with his staff of 2½ workers, using only one foot-driven sewing machine and without access to, say, the time-saving hide-cutting machines of Japanese make both EM-3 and EM-5 most proudly showed me they had in their workshops. EM-9's production was 36 pair of shoes per week. Assuming his work force of, in total, 3½ persons work normal workweek of 44 hours, EM-9 would need a production time of 4.3 hours for each pair of shoes, very close to EM-3's level. The conclusion is that EM-5's enterprise is highly profitable, *not* because of his time-saving machines (all under EM-5's personal control) or of high productivity among his workers, just the opposite, but because the scheme of his enterprise is based on a large number of sweating workers.

A last example of the impact of technology is the case of EM-10. The productivity of EM-9's enterprise is better than that of EM-10 whose staff of effectively three persons (EM-10 seemed to tend the sales desk on near full-time) spent 4.4 hours per pair of shoes. All worked by hand. In reality, their productivity is probably even lower since their shoes were simpler than those of EM-3 and EM-5, more comparable with EM-9's products, and EM-10 may add a helping hand in the production without having been counted for among the contributors.

In my discussion on what the academic literature had to say about the financing opportunities in the informal sector, I contemplated the possibility that formal enterprises might raise the capital necessary to start an informal workshop that would handle part of the production and do it cheaper than the formal unit. In the case of the homeworkers of EM-2's enterprise, those who made suits, they had all bought their own machines, probably simple foot-driven ones. The price I mention above, Q1,000-1,500 ($137-$205) for the simplest model, was quoted to me by workers in EM-2's workshop. This is a considerable, but tolerable expense for

a homeworker since the investment will serve him well over many years. Given that situation, there is probably no incentive for a formal enterprise to finance an informal workshop if this is the only argument.

Management Schemes

All the most successful entrepreneurs - EM-2, EM-3, EM-5, EM-7 and EL-3 - used a combination of homeworkers, workshop workers and/or sale shop in their enterprises. One advantage of the scheme of using homeworkers, is that the homeworkers add to the profit without much investment and risk for the entrepreneur. The turn-over of invested capital in the raw material to the homeworkers is fast. The entrepreneur hands over the necessary material and get back value-added products with no obligations besides compensation for the work done. EL-1 told, however, that the disadvantage was that the homeworkers often did shoddy work, not easily detected, which was prevented in the workshop due to better supervision. My calculations on the shoe activity, indicate that production in the workshop with access to machinery, as in EM-5's case, is the most profitable scheme. The reason that homeworking is widely used by the larger enterprises, could be the lack of space in the workshops. The workshops of all the entrepreneurs who used homeworkers - EM-2, EM-3, EM-5 and EM-7 - were jammed, perhaps with exception of EM-5's place. A more likely reason, however, is evasion of public safety and work place regulations, see discussion in the section in Chapter 7 on the control group of formal enterprises.

EL-3, like EM-2, used a combination of workshop and a sale shop where the production of specialized products - in the case of EL-3, bridal dresses and other ceremonial dresses for women and girls - were sold. Actually, he had two sale shops. But where EM-2, in addition to his workshop, had homeworkers, EL-3 had added a commerce-only activity whereby he bought the products of out-of-town producers - women sweaters, padded jackets and the like - and sold them in his shops. Here he possibly had a profit margin of around 75 percent - if what the retail shops added to their cost price on EM-5's products is an indication. The discussion following Table 4.4 indicate that - measured by number of employees - EL-3 is so definitively the most successful among the interviewees. The broader selection of goods in his shop also indicates that he weathers seasonal and other fluctuations in the market better than the rest.

Production By Scale

The calculations on the entrepreneurs' take-home earnings indicate that the overriding factor for success in the informal sector is a production volume of scale. That can be gained by high

productivity, but, as stated above, low productivity is not a hindrance to success, as the case of EM-3 exemplified. While EM-4 and EM-9 expressed frustration with the competition and the problems of selling their products, no such complaints were raised by any of the more successful entrepreneurs. They probably had paid as much attention to developing and maintaining their sales network as they had in building up their workshops. They all gave the impression of managing this part effortless, in spite of the fact that they handled a much larger sales volume than EM-4 and EM-9. Also, contrary to EM-9, none of them had economic liquidity problems. In most cases, as I was informed, costly investments were financed straight out of the profit of the production. One major reason why production of scale is important, is that large production volumes reduce the impact of the cost of reaching the customer. Those who choose not to add a potential lucrative, but risky addition to their empire, i.e., a shop - and all had decided against it, except EM-2 - paid heavily for the service to have their products sold through retailers. In EM-5's case, the shops pocketed in average 43 percent of the shop price of his shoes (Q7,500 per week), i.e., three and a half time more than EM-5 and his wife got out of their combined efforts. One has to admire the baroque beauty of the exploitative system of Guatemala where the many lives off the few that produce the trickle of products that keep the society going.

Other factors

The ease by which some entrepreneurs who did not have their own shop - notably EM-3, EM-5 and EM-8 - handled the sale of their products to the customers, either directly (EM-8) or using retailers as middlemen - is striking, when compared with others - notably EM-4, EM-9 and EL-1. The latter, probably, spent days peddling their goods in shops and *mercados* in faraway places.

The seemingly elegance of some of the consumer goods, being produced under sometimes miserable working conditions - particularly certain categories of shoes and clothes, which have been focused upon in this study - is striking. One fascinating factor worth noting is that the informal entrepreneur is under the same pressure to adapt to the changing tastes of the market place as the large formal factories and the fancy boutiques in Paris and New York. The interviewees would freely admit that they copied from *haute coiture* advertisements in recent English-speaking magazines and even showed me some of them. Some would claim that they used a combination of borrowed ideas and their own imagination.

One observation from this study is that there does not seem to exist incentives for switching from jammed workshops and homeworking to costly, man-hour saving machinery

because, with salaries as low as reported in this study, they represent only a small fraction of the cost of the final product.

COMMENTS

Contrary to what has been reported in the literature, the productive entrepreneurs in the informal sector of Quetzaltenango had a fairly close contact with the financial institutions and used them relatively frequently. Most lending took place with the so-called national NGOs and cooperatives. In limited degree did loans from family play a role. For the most successful ones, using the profit of their enterprise instead of loans were quite common. My data also indicate that the use of bank services, like having checking and saving accounts, was quite common. The taxes in the informal sector of Quetzaltenango are modest, measured relative to the value of the production of the individual enterprise. It was clear that a significant tax evasion took place, but my data offer no indication of the size of this. Among the enterprises visited as part of this study, different management schemes were in effect. I have commented upon these, identified possible advantages and disadvantages with those I observed, and discussed them together with other productivity factors that may influence the success (or failure) of an informal productive enterprise.

As a commentary to the take-home earnings of, say, EM-1, it is worth mentioning that a family of two adults and four to five small children, living in urban Quetzaltenango, in theory, will need a minimum of Q2,300 to cover all its basic needs. If the family lives in a rented home, it will need another Q600-Q700. As Table 1.1 should indicate, a large part of the population will live on a total income well below this, probably within the range of Q1,500-Q2,000 per month. These families make ends meet in the way Ward (1986) described: by cutting down on nutrition, by leaving out fruit and meat, cutting out extras, let the clothes last longer and buy cheaper clothes, and skip medication and the call for a doctor when the children get sick. But this time it is not one family or some families; the imposed reduction in living standard applies to large parts of the urban population, something I observed when I shared the daily menu with a sequence of lower class families this summer as their paying house guest.

The organizational scheme of out-farming part of the production to smaller production units or individuals, was observed in many of the enterprises contacted by this study - it was present in the enterprises of EM-2, EM-3 and EM-5. But the interrelationships were all *within* the informal sector. I saw no sign of a cooperation between informal enterprises or homeworkers and a typical formal production unit. It was hypothesized initially that the lack of a significant number of small and medium sized formal enterprises in the city of Quetzaltenango

was an indication that such interrelationship does not take place. Whatever the reason is for this low level of interrelation, my observations seem to contradict the hypothesis made by Moser (1978) that a maturing informal sector as one obviously has in Quetzaltenango, will be increasingly more dependent on the formal sector.

Is the situation more difficult today than earlier for upcoming entrepreneurs? Entrepreneur EM-2 mentioned that he after twelve years of operating his enterprise without machines, got loans in the governmental *Banco BANDESA* (around 1970), at reasonable rates, 5-6 percent p.a. This financial opportunity for small entrepreneurs was terminated recently, partly due to large losses on loans, low profit and need for the capital in other sectors, but also as a result of the privatization policy which has swept over Guatemala the last few years. Instead, the scheme of national NGOs and cooperatives has been introduced and have taken over the lending business with the small enterprises. Together or as an effect of that, interest rates on lending have gone up significantly. As mentioned above, cooperatives represent the cheapest end of the lending market, but access to cooperatives is normally the result, not the cause, of a successful operating, small enterprise.

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CHAPTER SIX:

Ethnic Networks in Quetzaltenango

The two previous chapters discussed the first of the two main foci of this study, i.e., the productive enterprises in the informal sector. In this chapter the other focus, the impact of ethnicity on entrepreneurship in the informal sector, will be addressed. The discussion will expand upon the analysis of ethnicity presented in Chapter 2, but specifically look at the situation in Quetzaltenango itself with respect to productive enterprises in the informal sector. The two overarching hypotheses on ethnicity in the informal sector of Guatemala that was raised in the Introduction will be assessed and tested up against the results of my fieldwork.

WHAT KIND OF ETHNIC NETWORKS EXIST?

An ethnic network exists among entrepreneurs of the same ethnicity if the entrepreneurs use some type of support, instrumental and/or expressive, from the ethnic community of which they are members in the formation, management and maintenance of their enterprises. As we saw in Chapter 2, Connor (1994:40) defines an ethnic community as "a social group that shares a common ideology, common institutions and customs, *and a sense of homogeneity"* [my emphasis]. In this study, I will define a person as belonging to the Maya community if he himself feels he belongs there. As the fieldwork of this study disclosed, individuals in Quetzaltenango, without exception, have a clear idea of which ethnic camp they belong to.

Early it was argued that the source for understanding entrepreneurial behavior lay in the social structure of societies and the value structures that they produce (Weber, 1978; Schumpeter, 1934). Weber also introduced the notions of the boundedness and the maintenance of enforceable trust within social networks. This platform is incorporated in some current theoretical frameworks whose main idea is that entrepreneurship is socially embedded, and not strictly economic or the function of the psychological make-up of individuals (Butler and Greene, 1997).

Because of the lack of information on entrepreneurship and social networks within indigenous environments in Latin America, I have found it necessary to address that topic indirectly, by using the academic literature on ethnic entrepreneurship among immigrants to the United States. The only area in which sociologists who focus on the United States have given serious attention to self-employment is among immigrants (Bonacich and Model, 1980; Portes and Bach, 1985; Portes and Stepick, 1993; Zhou, 1992; Min, 1988). Using the literature, I will

suggest that there exist both similarities and differences between immigrants to the United States and the Maya community of Quetzaltenango. For example, on one hand, while immigrants to the United States were a minority, except in the enclave they were living, Mayans in Quetzaltenango represent a majority population in the city. They also seem to dominate the petty trade in the city's *mercados*. On the other hand, a large part of Quetzaltenango's Maya population at one time or another was migrants to the city. Also, the racism towards Mayans that prevails in Guatemala, make them outsiders in their larger social environment as the immigrant was in his - a crucial background for the decision to try one's luck as an entrepreneur (Greene and Butler, 1999). Push-pull theories of migration, which have guided that research, are concerned with economic, social and political factors that force people to leave their native habitat and seek opportunities in more promising land (Portes and Bach, 1985). While country borders are crossed by immigrants, the large number of migrants who came from the rural to the urban areas of the Latin American countries from the 1940s onwards stayed within their country. Their experiences when they arrived to the cities, may not have been significantly different from those of immigrants to the United States.

There are primarily three explanations as to why entrepreneurial communities are created and the question of whether these represent a survival strategy or a true vehicle for social mobility (Zhou, 1999). These are the middleman minority theory, the ethnic market niche theory and the enclave-economy theory . The enclave-economy theory seems to be the one which best fit the case of Mayans working in the informal sector of Quetzaltenango. It will be discussed briefly.

On the one hand, the enclave-economy theory conceptualizes the enclave as an ethnic labor market distinct from the larger labor market, where immigrants are provided with potential benefits, such as opportunities for self-employment and social advancement. On the other hand, it perceives the enclave as an integrated cultural entity maintained by bounded solidarity and enforceable trust - a form of social capital necessary for ethnic entrepreneurship. Within the enclave, the entrepreneurs and workers are organized around the symbols of a common ethnic background, familiar cultural environment, and densely knit networks. Undoubtedly, this applies to large parts of the Maya population of Quetzaltenango.

A key feature of enclave economy is the co-ethnicity of entrepreneurs and workers. Determining the extent to which this aspect applied to Quetzaltenango was one of the goals of this study. An ethnic enclave is defined as a spatial concentration of ethnic firms or workshops with a wide variety of economic activities. The economic aspects of the enclave provides co-ethnic members with privileged access to a particular supply of raw material or finished goods,

to jobs, some which may require certain skills, and to a low-wage, reliable co-ethnic work force. Economic activities in the enclave can include trade, productive workshops and community-based services. Although ethnic entrepreneurship may basically be motivated by self-interests, it cannot be successful without its roots in the ethnic community bounded by group solidarity and enforcement capacity of the community. These two aspects enable employers to demand greater discipline and effort from co-ethnic workers, who, in turn, receive preferential treatment from owners in terms of job offers and job-related support. Although ethnic enclaves may be short-lived and may not last beyond the second generation, they create unique opportunity structures to enable group members to incorporate themselves into mainstream society, and thus, is an effective alternative mobility path compensating for lingering labor market disadvantage (Portes and Zhou, 1992).

Butler and Greene (1997) argue that immigration networks permit the reduction of social, economic and emotional costs associated with migration. Portes and Bach (1985:342) claim that it is the absence of a normalized relationship to the society that compels immigrant entrepreneurs to rely upon the economic potential of ethnic solidarity. One may assume that this aspect applies to Maya entrepreneurs as well. Ethnic bonds can be activated, under circumstances characteristic of the ethnic group, for example, to provide initial capital for business ventures. And they can help erect barriers around the community to protect its market activities from outside competition. Portes and Bach (1985) found that dense networks of contact within the immigrant community performed as a buffer toward the outer world by routinely functioning also as a source of employment, information about events and social support. It is important to note that ethnicity modifies the character of the class relationship, i.e., capital and labor, within the enclave.

The foundation of all business is based on maintenance and generation of financial capital. One of the questions studied in the literature is how immigrant ethnic groups develop and maintain a capital base (Butler and Greene, 1997). This subject will be addressed more closely in the section on financing opportunities. With reference to the earlier discussion, is worth mentioning that many authors assume, erroneously as we will see, that capital accumulation does not take place in the informal sector. Bates (1985) in a study of Blacks in the United States, suggested that the nature of ethnic minority entrepreneurship was a result of limited access to financial capital, education and training and society's perceptions of appropriate roles for minorities. He underlines that entrepreneurship is not only a survival strategy, but also a reaction to the feeling of the individual of being an outsider of kind or having traumatic experiences. (Dr. J.S. Butler at the University of Texas at Austin forwarded the

same view, private communication). Bates' observations may be transferable to Guatemala where a racist and economic exploitative hierarchy is imposed upon the relationship between the Ladinos and the Mayans.

Portes and Bach's (1985) study of Mexican and Cuban immigrants to the United States indicated that inter-ethnic relationships did not decline as a consequence of the adaptation process, even when the contact with the locals increased. The numerical ratio between Mayans and Ladinos in Quetzaltenango is roughly 60-40. For this reason, the pressure on the Mayans to adapt to Ladino values and environment in Quetzaltenango is probably far lower than in Portes and Bach's case. Given the attitudes of the ethnic groups towards each other, one could hypothesize that an attitude prevails in the Guatemalan society that keep the interaction between Ladinos and Mayans - at least in part of the population - at a minimum, indicating that the social interaction among the Mayans is not modified by a high presence of Ladinos. A working hypothesis for this study was that relationships within the Maya community represent an enduring and substantial, but not exclusive, component of the social networks of the Mayans over time.

It can be argued that the success of running ethnic enterprises depends more upon non-financial resources and the kind of strategies employed by the business owners than upon loans from formal or informal sources (Butler and Greene, 1997). Building upon the previous discussion, that assumption will be applied in this study - expanded upon by what Waldinger et al. (1990) note. They claim that successful strategies are related to the intersection of opportunities and group characteristics, as ethnic entrepreneurs adjust to the resources of their group which are available to them. One of these is the use of labor from same-ethnic community. By the same token, family members play a crucial role in ethnic enterprises, not the least because this labor most often is unpaid. Butler and Greene (1997) refer to a number of studies in support of that point.

INTERVIEWS WITH THE ENTREPRENEURS

Among the entrepreneurs, there were eleven Mayans and three Ladinos. The Mayans were each asked about their ethnicity, their attitude to Maya nationalism as it is outlined in Chapter 2, the ratio of Mayans to Ladinos among their employees and if they discriminated in favor of Mayans in their employment of workers or in their relations to business contacts. And they were asked if they used their Maya acquaintances and friends, i.e., their ethnic network, to promote their enterprise. Each theme was followed up with a short discussion to exclude possible misunderstandings in question or answer.

The three entrepreneurs in the Ladino control group were asked, more neutrally, how they looked upon ethnicity, to which extent this played a role in their life and if they discriminated ethnically in employment. The answers are given in Table 6.1.

Table 6.1
The entrepreneur's preferences with respect to ethnicity.

1 # .	2 Own Ethnicity	3 Pro own-ethnic attitude	4 Active in own-ethnic organization	5 Hired Mayans in total hired work force*	6 Discrimin. in employment	7 Discrimin. in business
Clothes						
EM-1	Maya	Yes	No	1 out of 1	No	No
EM-2+	Maya	Yes	No	12 out of 12	No	No
EM-4	Maya	Yes	No	2 out of 2	No	No
EM-7+	Maya	Yes	No	10 out of 12	No	No
EL-3+	**Ladino**	-	-	Mixture, 7 empl.	No	No
Shoes						
EM-3+	Maya	Yes	**Yes**	26 out of 26	**Yes**	No
EM-5+	Maya	**Neutral**	No	9 out of 9	No	No
EM-9	Maya	Yes	No	1 of 1	No	No
EM-10	Maya	Yes	No	2 of 3	No	No
EL-1	**Ladino**	-	-	3 out of 4	No	No
Carpentry						
EM-6	Maya	Yes	No	6 out of 6	No	No
Food						
EM-8	Maya	Yes	No	2 out of 2	No	No
Car repair						
EM-11	Maya	Yes	No	7 out of 7	No	No
EL-2	**Ladino**	-	-	0 out of 2	No	No

* Family members not included

In Table 6.1, column 2, the entrepreneur's ethnicity is given, as the entrepreneur identified himself when I asked. Column 3 shows the answers to the question - directed only to the Mayans - if they had sympathy with the Maya nationalistic values as they are outlined in Chapter 2. Column 4 shows if the Mayans were organizationally active in Maya organizations or causes. Column 5, directed to Maya and Ladino entrepreneurs alike, indicates how many Mayans were employed out of the total work force of the enterprise. Column 6 and 7 shows the answer to my questions if the entrepreneur discriminates in favor of his own ethnicity in

employment and in his business dealings towards customers, contractors or suppliers.

In line with my general impression from previous visits to Quetzaltenango, none of the entrepreneurs I contacted, neither Maya nor Ladino, had any doubt about his ethnicity in response to my question related to column 2. In relation to my question on pro-Maya attitude, all the Maya entrepreneurs were familiar with what I here call "Maya nationalism" and - with one exception - all were in favor of the ideas. I exemplified what I meant with my question, but none of the Maya entrepreneurs were in doubt what I meant. The one exception was EM-5 who labeled himself as "neutral" to the topic, it simple did not interest him and he did not find it of importance. Only EM-3 among the Maya entrepreneurs was active in a Maya organization.

Column 5 shows a striking feature; that, by far, the large majority of employees in the low-salaried informal sector I contacted, were Maya. I will comment on this in my detailed discussion of the two hypotheses that follow.

In spite of their interest in the Maya causes, all the Maya entrepreneurs - and similarly, the Ladinos - were clear in their denial to my questions if they in any way discriminated, one way or the other, on ethnicity in employment and in their business dealings. With respect to the Maya entrepreneurs, they stated that their interest in the Maya causes had no influence in their professional life, while the Ladino entrepreneurs, without exception, stated that they had no interest in ethnic causes and that ethnicity played no role in their life neither professionally nor privately.

Not listed as a specific question in Table 6.1, but a topic I raised with all the Maya entrepreneurs and most all the Mayans I had "formal" contact with as part of this study, was if there existed productive economic activities in the informal sector where Maya entrepreneurs were favored, which they preferred or which they by circumstances ended up in or evaded. The answer was solidly negative; everyone I brought it up with would deny that segregation on these premises took place.

I will bring up a different but associated topic in the discussion of the following section, i.e., if and to which extent ethnic segregation takes place with respect to non-productive, *commercial* activities.

DISCUSSION OF THE ETHNIC HYPOTHESES OF THE STUDY

This study was initiated with the purpose of mapping the situation of Maya entrepreneurs in the informal sector and, more specifically, determine if ethnicity plays a role in the success and failure of indigenous entrepreneurs. Two hypotheses, that were presented and detailed were forwarded for testing. These were, first, that Maya entrepreneurs may work primarily in certain

economic activities and not in others (hypothesis #1). And, secondly, that they may have to use their ethnic social network to maintain and promote their enterprise (hypothesis #2).

Hypothesis #1: On Ethnic Segregation

This study was not extensive enough to determine definitively if ethnic segregation takes place in the informal sector of Guatemala. However, a number of sources contacted as part of the fieldwork of the study, indicated that this is indeed the case, but in an unexpected way. The staff of S.E.A. (*Sociedad El Adelanto*, an apolitical Maya organization) and the entrepreneurs EM-2 and EM-3 stated that the general low educational level among Mayans was a major obstacle to them in establishing successful small enterprises, not meaning that not some have succeed. It is interesting to assess that view in comparison with the data presented in Table 7.1 above. There I concluded that while my data did not identify any correlation between success as a productive entrepreneur and length of education, they *indirectly* made clear that high education was a definite advantage.

In my later conversations with Sr. Ouemé, president of ADEQ (*Asociación De Empresarios De Quetzaltenango*), he expressed agreement with the view that the Mayans educationalwise were at a disadvantage in comparison with the Ladinos. He related the general lower educational standard among Mayans with what he saw as a lack of technical insight among Mayans and, by implication, relatively fewer Mayans than Ladinos started *and* succeeded as entrepreneurs of productive enterprises. In his view, technical competence is a crucial factor in economic activities where machinery is needed to produce volume and thereby break away from a subsistence level. Also, the kind of machines - old-fashioned, of high age and user-unfriendly - most often used by the least resourceful out of economic necessity, put technical demands on the operator. As I understood the argument, however, it did not apply only to the hands-on technical aspects, but addressed also the managerial intricacies related to steering an enterprise successfully in a competitive market. It seems intuitively obvious that the educational level in a community correlates positively with the ability of the community to produce entrepreneurs with skills necessary to succeed. While the direct information of my data do not support that assumption, the *indirect* interpretation of my data does, when I compare the size of the recruitment pool of entrepreneurs of low education (*primaria, secundaria*) with that of high (university).

Entrepreneur EM-2 emphasized two additional disadvantages the Maya entrepreneur *in spe* may face. First, the problems in raising capital. A person with no track record, minimal

education, and - most important - limited or no ability to offer collateral for the loan, will be at a disadvantage in his dealings with the lending institutions. This situation characterizes relatively more Mayans than Ladinos according to my sources, because of the socioeconomic conditions of Guatemala since Mayans, as a group, do not have the same economic resources as Ladinos. And, secondly, a general climate exists among the Mayans where individualistic, entrepreneurial attitudes are not encouraged. The last statement is vague and was ridiculed by some Mayans I discussed it with, among them EM-5. However, I interpret it within the context of Warren's (1998:137) view that the Maya social identity has long been characterized by community-based allegiances that, supposedly, constrain certain individualistic attitudes which are desirable among entrepreneurs. According to EM-2, whose views were supported by Sr. Ouemé and EM-3, both aspects put Mayans at a disadvantage. In lack of hard data which address these arguments, I tend to believe that all three arguments have some merit. One effect would be a significantly smaller recruiting base for Mayans with the competence and the attitudes required to start productive enterprises and succeed. A second effect could be a lower competence among those Mayans who *did* succeed in starting an enterprise, that could be reflected in a lower productivity of their activity and thereby making them less competitive. That may prevent the enterprise from generating enough economic momentum, keeping it stagnant or even making it fail. Vital (1997:49) exemplifies indirectly such a situation. His studies of the formal industrial sector of Region VI of Guatemala conclude that the proportion of the labor force that does *not* have the necessary formal qualifications for their job, oscillates between 74 and 85 percent. He argues that this may, over time, be reflected in a reduced productivity that may hurt the region's industry.

According to the staff at S.E.A., whose view was supported by EM-3 and Quemé, potential Maya entrepreneurs in the informal sector would - if they were scared off from or did not succeed in starting a small enterprise of production - prefer to make a living related to petty commerce. This, however, offers, generally speaking, neither the same opportunities for expansion nor the same earning potential as a successful or a moderately successful small enterprise based on production. The competition among the *commerciantes* is fierce; it is near to impossible to establish a cozy, semi-secure niche as sometimes happens among enterprises of production, refer, say, the activity of EL-3 with ceremonial dresses. That means that an enterprise of commerce with many employees ends up only as a security against failing sales among some, not an opportunity for increased economic gain for the commercial entrepreneur and expansion of his enterprise. This situation is documented in a report by Q'uq' Kumatz-Menmagu (1999). Its numbers show that while the percentage of the categories "poor" and

"extremely poor" (se definitions in Introduction) among that part of the economic active population that work within the activity of services/enterprises, were 42 and 25, respectively, the numbers for the activity of commerce were as high as 88 and 69 (ibid.: 22). I was informed that perhaps as many as 70 percent of the microenterprises in Quetzaltenango were involved in different kinds of petty full-time commerce, by far the most run by Mayans (source: Sr. Ouemé and Sr. Villagran). Also, it was pointed out that the largest part of the commerce sector consists of marginal single-person or small family businesses. That assessment is, in part, supported by the fact that, on one hand, typical informal enterprises are considerably smaller (measured in workers employed) than typical formal ones, and, on the other hand, the number of formal enterprises is relatively high when the work force of the enterprise is low but tapers off extremely rapidly as the work force increases past a certain threshold. Vital (1997:23) put that threshold at 19 workers for formal enterprises in region VI of Guatemala. Data on the ethnicities of the *comerciantes* in Quetzaltenango do not exist. However, Q'uq' Kumatz-Menmagua (1999:27) refers to a study from 1993 that had estimated that 80 percent of the 13,000 *ventas callejeras* (street sellers) in Guatemala City - a city with a relatively far lower Maya population than Quetzaltenango - were Mayans.

The earlier discussion, see particularly Chapter 5, did not distinguish between enterprises of commerce and enterprises of production. However, this is an important distinction because of the significant difference in growth potential between the two categories and the different entrepreneurial qualifications they call for, as discussed above. It is emphasized that the intention of this study was to focus on enterprises of production only. The indication received as part of this fieldwork, that the alternative to an enterprise of production is not necessarily *no* enterprise, but possibly an enterprise of commerce, is important and need to be investigated more closely in the future.

It was mentioned that the opportunity to get loans may be a crucial determent in the success of an enterprise. I made efforts trying to determine if there existed veiled discrimination against the Mayans, based on their ethnicity, within the financial sector when they tried to raise loans. I found no traces of that. If discrimination is present, it most likely is present in the form of a subjective application of "neutral" technical criteria for credit worthiness since approval of larger loans is, without exception, linked to the availability of sufficient collateral. The demand for collateral by the lending institutions will put less resourceful lenders at a disadvantage. However, nearly all the interviewees of this study had been able to take up loans, using their property as security. Two entrepreneurs had never taken up loans - EM-6 because he borrowed from his family, and EM-10 because he could not afford to. The successful entrepreneurs were

all in the favorable situation that they could finance their needs from the surplus of their operation

Officially the Guatemalan society does not distinguish between people based on their ethnicity. This is probably a heritage from the time when assimilation of the Mayans was official policy, i.e., back in the 1960s and earlier, though the political reasoning behind a cautious practice on this matter is obvious. When I asked for help to identify Maya entrepreneurs for this study, the head of FUNDAP, Ing. Gándara, claimed that his institution did not keep information on its clients' ethnicity on file, and contradicted himself shortly after by saying that they could not release that information. No other non-Maya institution or persons in high offices I approached claimed to have such limitation in their data. Some would promise to give me what I wanted but requested a "formally correct" application procedure - before they turned me down (ADEPH). Others would repeatedly promise to give me what I wanted, but never deliver (TIMACH, ADEQ). One institution would clandestinely comply and give me a list within the hour as a personal "hush-hush" favor. People make no secret of their ethnicity which they are very conscious about, and the environment seldom have difficulties to identify people as either Ladinos or Mayans. That ethnic stratification exist in Guatemala is exemplified by the near-total absence of Mayans from the political, cultural and economic arenas at the national and regional levels, and in the media, and the fact that negative attitudes towards and prejudices against Mayans, as a group, run deep among many Ladinos.

Given the answers of the entrepreneurs, discussed in relation to the interview answers presented in Table 6.1, this study will conclude that it found no evidence in support of hypothesis #1, i.e., that external circumstances steered Maya entrepreneurs into certain productive enterprises and prevented him from others. The same goes for Ladino entrepreneurs. However, there is *circumstantial* evidence that potential Maya entrepreneurs, for reasons imbedded in the social structure, particularly related to the possibilities for getting adequate education, are steered away from the entrepreneurial sector of production and into the less promising entrepreneurial sector of commerce.

Hypothesis #2: On the use of Ethnic Networks

Table 6.1 shows that there was a very high degree of conformity in the answers from the different Maya entrepreneurs to my questions related to ethnicity. All the Maya entrepreneurs, with only one exception (EM-5), had pro-Maya attitudes as they have been described in Chapter 2. Some were only leaning in favor of these views, but others got excited about them when the topic was raised (among them EM-3, EM-4). One was organizationally involved for the

promotion of the cause (EM-3). The one dissident, EM-5, was not negative. He only found the ideas "*no son importante*". Everyone, however, had a clear idea of his or her ethnicity. All the Maya entrepreneurs, including those who stated they were neutral to the Mayanist ideas, had Maya wives and gave the impression that the alternative, a Ladino wife, was out of the question. Similarly, all the Ladino entrepreneurs had a same-ethnic wife.

S.E.A. claimed that Mayans often would make ethnic preferences in favor of other Mayans in their business dealings. There is no support for that statement in my data. Just the opposite, all the Maya entrepreneurs made very clear that pro-Maya views had no influence on their business decisions or their relationship to customers, suppliers of raw material or contractors they delivered their products to. Entrepreneur EM-3 is an exception, in part. He made a point of his use of Maya-only workers in his production, stating that "*Los ladinos tienen dinero y educación*", indicating that Mayans deserved his help because of their lack of resources. However, one may cynically speculate if not the fact - verified by this study - that Mayans represent a large pool of the cheapest labor, also has influenced EM-3's decision to use Mayans only.

In spite of the fact that the entrepreneurs themselves made clear that they did not discriminated in favor of Mayans when they hired workers (with exception of EM-3), Table 6.1 shows that *all* the Maya enterprises were staffed with Mayans only. There is only one exception. EM-7 paid his workers at the low end of the salary scale my data reported, and he hired women only. The presence of two female Ladino workers in his work force, is most likely an indication of the low salaries paid to unskilled female workers of *both* ethnicities.

My data on the work force of the Ladino enterprises seem to indicate a somewhat different picture. However, the difference is not significant since my data here are not equally solid. EL-3 would describe the ratio of ethnicities of his work force only as a "mixture", and EL-2's enterprise is, together with EM-11's, the one which pay the highest salaries in my sample. That leaves the enterprise of EL-1, which had a small work force with a composition not radically different from those of the Maya enterprises.

Table 6.1 shows that out of 81 workers hired to mostly low paid jobs in Maya enterprises in the informal sector (members of the entrepreneur's family not included), 79 were Mayans. (The two Ladino females in EM-7's workshop, who represent the difference, is commented upon above.) This dominance by Mayans in the low-salary end of the spectrum is out of balance with the statement made in the Introduction, that forty percent of the population of Quetzaltenango are Ladinos. From the data one has to conclude that economic, not ethnic criteria dominate the low-salary labor market, that Maya labor is synonymous with a pool of the

cheapest labor, and that the entrepreneurs hire accordingly. This was pointed out by EM-6 who actually mentioned that Mayans dominate the cheap work market. The statement of my data, however, is stronger; it says that the Mayans *are* the cheap labor market. This conclusion is strengthened by the fact that EM-1 and EM-4, who had the best reasons to watch their expenses, both used Mayans only. This trend is reflected in other parts of the Guatemalan society, as well. It is quite common that middle- and low middle-class families, of both ethnicities, have a young, subservient female house help (15-18 years of age) to do the heavy work in the house. The help, the so-called *muchacha*, is - in my experience - always of Maya ethnicity from a rural area nearby. My inquires disclosed that they earned Q10-Q12 (approx. $1.50) and three meals a day, for a 10-12 hours' workday 5 or 6 days a week. Normally, they would eat by themselves, under cramped conditions, and not be a part of the family's interactions - a privilege the pets of the family would be granted.

My conclusion, that Mayans serve as a cheap pool of labor in the informal sector, is supported by a report by World Bank (1995). Here the ratios of salaries of non-Maya workers to salaries of Maya workers in a number of economic activities, are reported. The difference, in percent, goes from high 170 percent for administration personnel and 150 percent for sales persons to 48 percent for labor. In agriculture, where Maya labor has a near-monopoly, the percentage is 73. Only in the activities of transport (-20 percent) and office work (-2.5 percent) are Mayans paid more than their non-Maya counterpart.

EM-3 claimed to pay salaries of Q250-Q300 per week to his workers, i.e., Q1,000-Q1,200 per month. There are reasons to doubt the truthfulness of his information. EM-5, who worked in the same economic activity as EM-3, in shoe production, mentioned that he paid maximum Q1,000 and some were paid as low as Q850, depending on the worker's productivity. In the section where EM-5's take-home earnings was estimated, it was argued that the productivity of his enterprise is higher than the productivity of EM-3's. That means that EM-5, not EM-3, should be the one who paid the highest salaries.

My data indicate that salaries in the range of Q800-Q1,000 per month was the norm in the shoe activity, though some were lacking behind due to lower productivity (source: EM-5). This is particularly obvious in the case of EM-10 who pay salaries well below the other shoe entrepreneurs, but also have no machines to offer his workers. However, EM-10's lower productivity can not fully describe his lower salary. The workers at EM-2's workshop, in the clothes activity, claimed that they were paid only Q600-Q700 per month for a 44 hours' week. All in all, the number on salaries in the informal sector determined by this study, considering the above comments, are not out of tune with the information on salaries in the informal sector I got

from Lic. Rossana Fernández and which is presented in Table 1.1. I have no explanation to the difference in my data between the shoe and clothes activity, and even less so, considering that the clothes activity seems to be more profitable based on my estimates of the take-home earnings of the entrepreneurs of this study. I mentioned earlier, when I discussed the literature reporting on informal incomes, that Wormald and Rozas (1996) also reported that garment workers received the lowest salaries within the economic activities they sampled. My data show that all the workshops making shoes had only male employees. Among the workshops making clothes, one employed only women, while the rest had male workers. One may speculate if clothing manufacture traditionally is a more "female" occupation, and that this could be the reason behind the lower salaries.

Given the information at hand, this study will conclude that Maya entrepreneurs clearly do not use their ethnic networks to promote their enterprises. That is in contradiction to what one would have expected from the discussion introducing this chapter. A few ideas on the reason for that situation are offered. The fieldwork which implied conversations with a fair number of Mayans on a wide range of the socioeconomic ladder, made clear that there indeed exist a positive, though sometimes guarded, attitude to Mayanism as an ideology. It is present, though less pronounced, also among the economically well-offs, than among the officers of Maya organizations and Mayans living under tighter economic circumstances. (Entrepreneur EM-3 is an exception.) One explanation why these pro-Maya views have not been translated into active business practice, could be that Mayanism until today has been presented as a *cultural*, not a political idea. Another explanation could be that a pragmatic view prevails among Maya business people, i.e., the Maya communities are still marginalized in the Guatemalan society, in spite of some progress over the last decade and the success of some, that they have more to loose than to gain with a pro-Maya stand which could be interpreted as provocative by the society at large. However, in lack of an political ideology *and* a solidarity among the Mayans themselves that can challenge the market-oriented considerations of Maya entrepreneurs, unskilled Maya workers will not be less exploited by their own kind than by the Ladino society at large.

Does Discrimination exist?

Luckily, a national election is coming up in Guatemala within three months and therefore the Guatemalan newspaper *Prensa Libre*, which has the custom to treat Mayans as near to non-existent and extremely seldom, say, carries pictures of or refer to them, like the rest of the Guatemalan media, answers that question with an article labeled "*Aún hay discriminación;*

Problematica! Los indígenas son mayoría de la población, pero viven come minoría" (August 1, 1999, p. 4-5). And then it offers a smattering of statistics to drive home its points. The article points out that over the years, due to what - with subtlety - is called *diversas circumstancias*, nothing has been done for the Mayans in the areas of health, education and economy; the Mayans are not considered when national policies are established; racism is present within the Ladino-dominated political parties; the Congress and its apparatus are organized such that they function against representation for the Mayans; and in a comparison with Ladinos they fall clearly behind when the national pie is distributed. The article sums up the promises of the future in no less smoother words than those of the seven presidential candidates - all Ladinos - who promote their causes in preparation for the election of November 7, 1999:

> En sus programas de gobierno, los siete candidatos a la Presidencia se han conprometido a impulsar políticas un verdadero proyecto de Nación, donde indígenas y ladinos convivan en armonía, sin distinción de raza, costumbres o religión, y donde tengan las mismas oportunidades de desarrollo.

No data on the impact of ethnicity in the city of Quetzaltenango, of value for this study, exist. Using internationally measures for the degree of underdevelopment of the Department of Quetzaltenango, one such measure - the mortality rate at birth (defined as death of the newborn within the first 28 days after birth out of every 100,000) - was 138 and another - the infantile mortality rate (defined as death of the child after the first 28 days and within the first five years out of every 1,000 born) - was 53 (*Jefatura*, 1997). The same numbers for the Guatemalan nation as a whole, in 1998, were 96 and 35 (*Prensa Libre*, 1999b). The Department of Quetzaltenango, has a total population of 503,857 inhabitants, with a proportion of Mayans of 60.7 percent and a rural population - mostly Mayans - of 60.2 percent (INE, 1994). Towards that background, both measures indicate a high degree of underdevelopment, which hit Mayans by far the hardest because they, as a group, are the least resourceful and dominate in the rural areas where the conditions are worst. It can be argued that life in the rural areas is different from life in the urban areas and that Mayans in the city of Quetzaltenango do considerably better than the Mayans in the rural areas. They do, but it worth noting that while 43 percent of homes in the rural areas experience "extreme" poverty (see definitions in Introduction), the same number for the *urban* areas is still 26 percent (Q'uq' Kumatz-Menmagua, 1999:23). Mayans are loosing out in a socioeconomic comparison with Ladinos also in the urban areas and carries, as a group, the mark of whatever detrimental effect that implies. Because of the demographic situation in Guatemala and the ongoing migration to the urban areas, the rural areas are the areas from which a large part of the next generation of urban Mayans will be

recruited. By the same token, the next generation of urban Ladinos will be recruited disproportionately from the urban areas which can offer more and better resources to its next generation than what the rural areas can. The situation in the rural areas can indirectly be exemplified by the facts that the main causes of death in the population of the Department of Quetzaltenango - a situation dominated by the rural conditions - are intestinal parasites due to the use of polluted water (16.8 percent), respiratory infections (10.7 percent) and bronchopneumonia (9.5 percent), (INE, 1997) - all typical "third world" symptoms. Also, malnutrition in the region is a serious factor, but varies according to the population group and is less crucial in the urban areas where, as stated, Ladino presence is more pronounced. This is not a denial of the fact that Mayans have become influential and some have reached to the highest level of the local society. The mayor of Quetzaltenago, Roberto Quemé Chay, is a Maya. But, much like the effect of capillary pressure, which will pull liquid up the conduit from the water table below - less and less the higher one gets - some Mayans do rise on the social ladder, but most are left behind, like the main liquid body - at the bottom of the column.

Turning to educational aspects, Table 6.2 shows the number of students inscribed in the educational system at different educational levels in urban and rural regions of the Department of Quetzaltenango in 1996. In addition, the table gives a presentation of the educational system of Guatemala. The table shows the small number of students who continue their education after *primaria*, both in the rural and urban areas, but particularly in the rural areas where education for most people ends with *primaria*.

Table 6.2 also shows that the proportion of the population under education is practically twice as high in the urban than in the rural areas. The rate of illiteracy among adults in the Department of Quetzaltenango is estimated to 32 percent (CONALFA, 1997). The possibility, in a national context, that a Maya child will complete six years of *escuela primaria* is only 27 percent (Q'uq' Kumatz-Menmagua, 1999:22). However, the proportion of Maya children who are of age but do not show up in school, is 66.5 percent (ibid.: 23).

What the effects of a short and inefficient schooling implies may be hard to document, but the following example is illuminating. In an up-market shop in Quetaltenango the otherwise intelligent looking and well dressed clerk of some 20+ years of age, used his calculator to sum my two purchases of, respectively, Q5.00 and Q9.85. In my charming, direct way I asked him if he really needed a calculator for that operation. The gentleman looked upon me in surprise and said: "*Si, no soy un Einstein*!". One aspect of that story is the obvious lack of basic skills; another, and worse, is the acceptance of that incompetence as an inevitable fact of life.

Table 6.2
Students inscribed in the basic educational system
of the Department of Quetzaltenango, 1996 (SIE, 1996). The table
gives also a description of the school system of Guatemala.

SCHOOL LEVEL	DURATION years	URBAN Students	RURAL Students	TOTAL Students
Pàrvulos (pre-school), 6 yrs.	1	5,956	1,975	7,931
Primaria (7-12 yrs)	6	43,288	59,285	102,573
Primaria Adultos (more advanced)	6	1,736	327	2,063
Secondaria o Bàsico (13-15 yrs.)	3	16,269	1,567	17,836
Diversificada (Specialization and pre-university)*, 16-17/18 yrs.	2-3	11,665	132	11,79
University** (no data)				
TOTAL		79,914	63,289	142,200
Percentage of all students (%)		55.5	44.5	100.0

Population (1994)		200,727	303,130	503,857
Percentage of population in school (approx.)***		39.8	20.9	100.0

* This level terminates with a degreee of *bachillerato* in, say, *Ciencias y Letras, Industrial, Maestro de Education Primaria* (all requiring min. two years), or in *Secretaria Bilingüe/Commercial* (requiring min. three years).

** This level offers - in increasing level of sophistication - degrees of *Licenciado, Maestro Universitaria, Doctor or Master.*

*** Census data from two different years are being mixed in lack of coherent data. The error being introduced is deemed insignificant.

In my conversation with adult Ladinos, no topic seemed to be more important than more education for themselves and, if they had a family, university education for their children. Similar aspirations were strongly present among the Mayans, too, but, in my impression, seemingly mostly among the upcoming and already well-settled Mayans. A disproportionate larger number of Mayans, in comparison with Ladinos, are caught up in less resourceful circumstances. They may need their children for the economic maintenance of their family and this situation is reflected in the lack of ambitions on behalf of their children with respect to higher education. In my conversations with a professor at CUNOC (*Universidad de San Carlos*), whose family I stayed with, he told me that at the level of university the screening of students was extremely high - due to lack of funds, the conflict between the need for working and time for studying and academic motivation. In classes of, say, 500 students at the start, it was not seldom that only 3-5 graduated. The fact that 79 out of 81 workers, employed in low-paid jobs in Maya enterprises contacted in this study, were young Mayans in the age between, roughly, 16 and 25, may be a strong indication of the ruling mentality and governing

circumstances among the not-so-well-off Maya families. But the problem is not only between Mayans and Ladinos, but among Mayans themselves. Q'uq' Kumatz-Menmagua (1999:24) refers to a study from 1989 which shows the average number of years in school for different ethnic groups. The K'iche' Mayans score the lowest with 2.9 years, while Mam and Q'eqchi' Mayans in the other end averages 3.7 years. The Ladinos averages 6.2 years and, in addition, is the one group that, relatively speaking, increases its school participation the most, closely followed by Mam Mayans, both with numbers twice those of K'iche' Mayans.

In lack of hard data on the situation specifically for the city of Quetzaltenango itself, it will be argued - using the circumstantial data at hand - that Mayans, as a group, indeed are disadvantaged in the city of Quetzaltenango.

COMMENTS

Many people I contacted expressed strong opinions in favor of the assumption that Mayans ended up with enterprises of commerce if they failed to establish themselves with an enterprise of production. The scope of this study excluded an investigation of that assessment and whether the same phenomenon was present among Ladinos and, eventually, to which degree. Trotting the streets of Quetzaltenango and observing the petty commerce in the city center and in the *mercados*, conducted overwhelmingly by Mayans, it is tempted to conclude that Ladinos play, relatively speaking, a distinct minority role in the petty commerce.

As mentioned above, none of the two proposed hypotheses based, on ethnicity, stood up to scrutiny. However, on ethnicity itself, there was a marked different stand among the Ladino and the Mayans. While all the Mayans entrepreneurs, outside their business function, had a stand from low-keyed to strong in favor of pro-Maya ideas, the Ladino entrepreneurs, under similar circumstances, would declare that ethnicity was not an issue.

The overarching but vaguely defined question of this study - if ethnicity plays a role in the success and failure of Maya entrepreneurs - can not be answered conclusively within the scope of this study and, probably not by the methodology applied. Too many interrelated factors play into the answer, not the least the influence of structural factors that were discussed earlier. This study did not compare the problems of entrepreneurs of the two ethnic categories in establishing productive enterprises, but there is circumstantial evidence that, as a group, the Mayans suffer under a disadvantage - the effects of a lower education level. This aspect, however, is not reflected in my data. Nor did my data indicate if Mayans have more problems in acquiring loans from the formal financial institutions than Ladinos. The universal - and therefore "ethnicity-blind" - demand for collateral for all loans except the smallest ones, should

imply that Maya entrepreneurs are not disadvantaged openly. In much the same way it will be concluded that Mayans and Ladinos alike face the same problems of raising capital, the high cost of capital, the threat of *garantia hipotecaria* when lending, and the competition in the market. These conclusions, however, do not take into account neither the effects of any possible structural bias against Mayans in the Guatemalan society nor the effects of the socioeconomic differences between the two populations, for example, in the form of ownership to property and thereby the ability to offer collateral and thereby take up loans.

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CHAPTER SEVEN:
Concluding Commentaries

In the previous chapters I completed my discussion of the two overarching foci of my study, the informal sector and ethnicity. In the following sections I will put the conclusions of those discussions into a larger perspective. First, I address the question on what makes the informal sector informal in the first place by comparing how formal and informal enterprises fulfill the requirements of public regulations in Quetzaltenango. And, secondly, I compare the practice and business attitudes of Maya entrepreneurs with those of Ladino entrepreneurs in a control group that underwent the same interviewing process. New legislation and political initiatives that will take effect in year 2000 and may have an effect on the informal sector of Guatemala, are being discussed. Finally, a summary of the findings of this study and a brief list of possible follow-up initiatives, are given.

DISCUSSION ON CONTROL GROUPS

The Ladinos

Three Ladino entrepreneurs - identified with code EL-m, m=1,3 - were interviewed as a reference on the conclusions drawn from the interviews with the Mayans. The main difference between the two groups of entrepreneurs was that while ethnicity played an important role among the Mayans in their private life, but only there, ethnicity was of no importance among the Ladinos, neither privately nor in the entrepreneurial function (se Table 6.1). EM-3 is, in part, an exception and has been commented upon earlier. EL-2's enterprise was the only one that did not employ Mayans, contrary to the one of EM-11 which was in the same line of work and had only Mayans. However, with only two positions open for non-family members in EM-11's enterprise, the observation is not significant. Ignoring that aspect, there were a number of striking similarities between the attitudes of EM-11 and EL-2. Both emphasized the need for specialized workers in their operation, both mentioned that it took well over a year to train a man to a satisfactory standard, both paid well above the normal salary range of the informal sector as determined by this study, and both reported that their workers stayed with them for years. The salaries are high, probably, not only because of the extraordinary demands on the workers, but, perhaps, because of the more affluent clientele of this category of enterprises. There are also striking similarities between the activities of EM-2 and EL-3. Both work in the clothes sector and operate diverse and highly prosperous enterprises, that include both the

production and the retail sale of the products. In addition, EL-3 would buy products of other entrepreneurs and sell them in his two shops. Both pay the lowest possible salaries. This study concludes that that salary bracket is dominated by Mayans. Other enterprises pay low and hire non-Mayan workers, like EM-6. EL-2 paid no interest to ethnicity. It may be a coincidence that he had low-salaried Ladinos in his work force and not only Mayans. His case does not undermine the over-all impression that Mayans dominate the low-salary end of the work force of the informal market.

EL-2 and EL-3 may give the impression that Ladinos do extraordinary well in comparison with Maya entrepreneurs, in general. This study concludes, however, that the shoe production activity offer a lower profitability than the clothes production activity, and EL-1, who has both a shoe production and a shoe shop, is one example that Ladinos may struggle as hard as the Mayans to keep afloat. This study forwards as one of its conclusions that the main difference between Maya and Ladino entrepreneurs is not in the *operation* of an established productive enterprise, but in the difficulties in establishing the enterprise, with a possible relative higher failure rate among Mayans than Ladinos and a relative higher number of Mayans trying their luck in the less profitable commercial sector as a result. A closer scrutiny of these aspects was outside the scope of this study.

In Chapter 3 it was observed that the level of education among the Ladino and Maya entrepreneurs was surprisingly high, given the low probability of getting a university education in Guatemala. This warns that there is a bias in my data. Four our of eleven Maya entrepreneurs had received education at university level, and three of these had been rewarded a degree. Among the Ladinos the situation was even more spectacular; two out of three had been rewarded a university degree. It is tempting to speculate whether initialization of productive enterprises caters primarily to entrepreneurs of high education, and the few successful entrepreneurs with low education are exceptions, but my data are not extensive enough to draw a conclusion one way or the other.

Formal Enterprises

To have a better basis for determining the extent and degree of the informal sector, i.e., which rules are being bent or ignored by informal entrepreneurs in their promotion of their enterprises, three large, formal enterprises in Quetzaltenango were contacted. These were *Fabrica de Cantel* (textile production), *Fabrica El Zeppelin* (clothing manufacture) and *Cerveceria National S.A.* (brewery). The *gerente general* (the CEO) of the first company rejected personally my request, sent in writing, with reference to company policy and conditions he

would not divulge over the phone. The second company had to discuss my request at the highest level, as I was told, "for political reasons" and to determine which topics - for example, the workers' salaries - would not be answered if I addressed them. At the end, my request, also here, was rejected by top management. Under stealth I managed to interview one of their managers in charge, but was not allowed a tour of the factory. And the third company, the largest and most affluent of them all - alcohol and monopoly make a delightful combination - scheduled a meeting on the spot.

From my conversation with the representative of *El Zeppelin*, I was told that rules for pension, social security, sickness, maturity, and insurance towards accidents at work are applied differently in the different departments of Guatemala. Nationwide, the first topic is handled by a semi-state organization; the rest, by the national state organization IGSS (*Instituto Guatemalteco de Seguridad Social*). Within the department of Quetzaltenango, all enterprises of five and more employees have to register with IGSS. Further, there are regulations with respect to accidents at work, but not on social security, with exception of maternity. The department of Quetzaltenango has no regulation or legislation in effect on retirement, and the public employees are fired when they come of age.

Like some enterprises, *El Zeppelin* enforces special arrangements in addition to the public regulations of the department. Its workers pay 2.5 percent off their salaries and will get a pension equivalent to 30-40 percent of their salary at retirement. *El Zeppelin* have also four doctors, including two medical specialists and a dentist, who offer medical treatment to the workers and their children under the age of 20. According to the representative, there exist a trade union within the factory which negotiate directly with the factory owners on social matters of the workers' direct concern and on salaries once a year. The workweek of 6 workdays, is 44 hours with a minimum salary of Q21.68 per day - giving a monthly salary of around Q520. All workers (*operativos*) are paid initially at that level, but their basic pay will be adjusted annually, depending on their productivity. In addition, they will get a bonus (*bonificación*) of Q0.30 per hour, which can increase to Q1.20 over x number of years, and incentives which may add 15-20+ percent to the basic salary. In the department of Quetzaltenango, there exist regulations on working conditions and safety for the workers at the work place and, in addition, *El Zeppelin* had its own.

Cerveceria National S.A. is a highly automated plant of high, modern standard with a production of 2.5 million liters of beer per year (one product, lager, only), but with only 170 employees. Five of these had a degree at university level and, in practice, supervised the whole production. The factory had a medical station, free for the employees, but would pay all

expenses if assistance from outside was necessary. The family of the employee was included in the medical service, children to the age of twenty. It offered, more or less, the same benefits as *El Zeppelin*. It had an internal labor union, which was not part of any national organization. The workers would have en education at minimum *escuela secundaria,* but many had completed *escuela diversificada.* Starting salary would be Q1,000 with an annual adjusted bonus only. No incentives (except promotions) were offered, since the factory's high level of automatization required mostly cleaning and other less demanding tasks from the unskilled staff. The information I got was more limited than what the representative of *El Zeppelin* offered, but by and large verified what I had been told there.

Only one of the aspects of this comparison between the informal and formal enterprises will be discussed here. I have earlier raised question by the prevailing use of homeworkers, even when conditions indicate that this work scheme is less productive than doing the production at one site. The public regulation for working and safety standards for the work environment of the enterprises, of course, do not apply to workers who are not physically present, i.e., the homeworkers. Homeworking, therefore, may be a way of *legally* circumventing the public regulations. However, even when homeworkers are excluded, by far the largest part of the enterprises contacted in this study had five or more employees. The lax attitude of the authorities is exemplified by the fact that all the enterprises are registered with the municipality (with exception of EL-1) which also collect taxes from all (except EM-5). And, still, there is no official reaction to the fact that the large majority of the entrepreneurs quite openly ignore the law of the land.

THE INFORMAL SECTOR IN TRANSITION

It was mentioned earlier that saving on overheads, such as fiscal and social security obligations and expenses on the safety standard of the working environment, becomes an important part of the survival strategies in the informal sector. The data of this study make clear that saving on these "overheads" is driven less by the need for survival than lust for economic gain. I was told that the *evación fiscal* (tax evasion) which characterizes - and defines - the informal sector, was rampant. One form this may take is that entrepreneurs may never report their true production numbers to the tax authorities. They will give inflated numbers, thereby reducing the tax burden. In my conversations with the comptroller (*el auditor*) of the city of Quetzaltenango, Lic. Carlos Villagran, he put the typical reported production numbers at 50 percent of the true value of a small enterprise. Others among my sources were more pessimistic - or realistic - and put the number in the range of 30-40 percent, though lower values may not be uncommon. One

informal entrepreneur of commerce I discussed the topic with claimed there was a balance point between the gain by reporting a low tax base and the chance of succeeding, and the effect of the inevitable fine if one got caught. The latter would, most likely, destroy the enterprise if the act was too provocative. He, himself, reported 40 percent of his total taxable activity. Paying bribes to municipality officials to reduce their tax burden, is another prevailing strategy, though none of the interviewees would admit to it.

I was faced with conflicting views on which taxation schemes actually were in effect. Two out of fourteen entrepreneurs would claim that they had to pay 10 percent in taxes on the sales value of their (official) production; some had never heard about that tax; other entrepreneurs denied its existence; the official in charge, Sr. Villagran, was unfamiliar with it; and a reliable source, Lic. de Jerez, with her specialty on business administration and years' experience in the municipality administration working specifically with microenterprises, stated that indeed it was on the book but not widely applied. The example, with its cloudy message, probably exemplifies the nature of the municipality's taxation practice very well.

From this study it is obvious that a not insignificant capital accumulation takes place in the informal sector of Quetzaltenango. One would have thought that the owner of a small but successful informal enterprise, which had been increasingly visible to the authorities, would prefer to pay a larger part of the most glaring shortcomings in his fiscal obligations, to protect himself. If this happened, his enterprise would - according to Castells and Portes' definition - become increasingly "formal", without any real change in its economic basis. Correspondingly, with the "loss" of a successful enterprise, the capital accumulation in the informal sector has been reduced, formally. This is not what happens in Quetzaltenango. The combination of a lax or incompetent public tax collection apparatus, combined with a clever use of deflated production numbers or other strategies to the same ends, have created a situation where taxation of the informal enterprises is near to non-existent - as the numbers above should indicate. That cozy situation may not last.

A new national taxation scheme is presently being introduced in Guatemala. The purpose is to enhance the state's tax revenue from small and medium businesses, to counteract tax evasion and the associated wide-spread corruption, and to ensure that all enterprises are being registered and their operational stock is on file. I was told that in 1998-99 nation-wide, around 20,000 staff of the previous state taxation bureau had lost their jobs and a new state/private organization, SAT (*Superintendéncia de Administración Tributária*), is presently being established with foreign assistance. In Quetzaltenango, a large group of highly paid - and supposedly unbribable - employees is presently being trained for the new task. The new national

policy and its organization are planned to go into effect in January 2000. Messages which announces new rules to ensure public insight in business transactions - like the use of receipts (even in buses and *mercados*) and an updated account of warehouse stock and transactions at all time - has already been widely distributed. It is too early to say if this will have a profound and lasting effect on the Guatemalan informal sector or if it is only another political Latin American "campaign", a side-show to larger political events in the nation, with no ripples left behind on the society after some time.

The municipality of Quetzaltenango, however, is also mobilizing to get its share of what is looked upon as the public pie. Unconnected to the efforts under SAT, it has recently used the local university resources and carried out investigations to determine the burden of small enterprises on the public services, with a future regional taxation scheme in mind. As mentioned, quarter-to-quarter, house-to-house surveys have been carried out to identify enterprises of all kinds and sizes (Vital, 1999).

COMMENTS

The investigation of the conditions among Ladino entrepreneurs does not in any way weaken the conclusions drawn from the study of the Maya entrepreneurs. Further, the visits to the informal companies gave a solid background to assess where the informal enterprises cut economic corners to reduce costs, also those which are proven to be highly profitable. EM-8 was the only one with accident insurance for his workers. This means that those working in enterprises with five or more workers, contacted by this study, did not have the benefits required by the public regulations, like pay during maternity leave or insurance for accidents at the work place. In addition, they will not have the benefits formal enterprises are legislated to pay their workers, i.e., bonuses in relation to Christmas, two weeks' vacation, birthday etc., which in total will amount to close to sixteen months' of salary for twelve months of work. The reflection in the aforementioned discussion of this chapter on the reasons behind the extensive use of homeworkers, can not be substantiated to a final conclusion based on the data of this study.

SUMMARY OF FINDINGS

The findings and conclusions of this study are summed up in the following overview. The precautions and the limitations on data and observations mentioned earlier, apply.

<u>On entrepreneurs' take-home earnings (Chapter 4)</u>

* The study has estimated the take-home earnings for five of the interviewed entrepreneurs

with enterprises within different economic activities and work forces varying from 3½ to 13 workers (including the owner). The estimates varied from $3,814 for the smallest enterprise to $57,077 for the largest. However, the data indicate that size, measured by number of workers, is not the only and - in some cases - perhaps, not even the most important factor for the degree of economic success of the enterprise.

On informal salaries (Chapter 4)

* There is a clustering in my data which indicate that the salaries for a worker in the informal sector are between a (low) monthly salary of Q650 and a (high) salary bracket of Q850-Q1,000.
* A similar situation as the one reported by Wormald and Rozas (1996) on Chile, that garment workers had the lowest salaries in the informal sector, is found in this study, too, with respect to the informal sector of Guatemala.
* On limited data - all precautions considered - the study indicates that the labor salaries of the informal sector in Quetaltenango are comparable with labor salaries of the formal sector of the region VI of Guatemala.
* The study concludes that there exists no ethnic solidarity between the Maya entrepreneur and the Maya worker; the Maya worker is mercilessly taken advantage of by his Maya - and probably also his Ladino - Master in the form of low wages. The entrepreneur who uses seasonally adjusted wages, lets the Maya worker feel the full impact of the seasonal fluctuations either by reductions in salary or by lay-offs - or both.
* There are strong indications that wages determined by the worker's productivity and seasonal conditions in the market - not fixed salaries - is more the rule than the exception, both laterally (among different economic activities) and vertically (for both small and large enterprises).
* The study concludes that to give the salaries in the informal sector as, say, the top and bottom wage paid at a set time within a certain economic activity, does not make sense if the information not also identify to which extent external factors make the salary bracket oscillate over the year.

On capital accumulation (Chapter 4)

* Using the first-hand and second-hand sources the study offers an explanation to where a surplus in the informal market is being invested.
* A model to estimate the annual capital accumulation in the informal sector of the city of

Quetzaltenango is forwarded.

* The study estimates the capital accumulation in the city of Quetzaltenango to $1,523,201 per year. The capital has been accumulated by 258 out of 1879 productive enterprises with a work force of 1,320 workers. In average, each capital accumulating worker generates an added value of $1,154. To this author's knowledge, a similar estimation has previously not been reported before.

On taxes (Chapter 5)

* This study make clear that the tax burden imposed on the small informal enterprises is too small than to be more than a nuisance. It is not an obstacle for capital accumulation.

On productivity (Chapter 5)

* A comparison between the enterprises of the clothes economic activity and the shoe activity may indicate that production of clothes in large quantities in the informal sector is more machine-intensive than shoe production in large quantities. Using the data at hand, there seems to exist larger variation in productivity among shoe enterprises than among clothes enterprises.
* The management schemes used by different entrepreneurs - the combination of workshops, homeworkers, workshop attached to sales shop, and the degree of pure commerce - may give an explanation of the degree of success the individual entrepreneur experiences.

On lending conditions (Chapter 5)

* Typical loans in the informal sector by informal entrepreneurs, were in the range from Q5,000 to Q15,000 of a duration from 8 to 18 months. The interest rates recorded by this study was a low 18 percent p.a. in the *cooperativas* which offer loans only to its members and a high interest of 28 percent in the private banks. Most lenders would use the national lending institutions (NGOs) which offer loans from Q1,000 and up at interests of 20-22 percent. All institutions would require collateral, except for the smallest loans at Q1,000.
* While the informal entrepreneurs were cautious about the high interests and the threat of offering their property as collateral for loans, this study reports that taking up loans is not an infrequent event in the life of an informal enterprise.
* Successful entrepreneurs would finance their needs by the internal surplus generation of their enterprise.

On hypothesis #1 (Chapter 6)

* This study concludes that it found no evidence in support of hypothesis #1, i.e., that external circumstances steered Maya entrepreneurs into certain productive enterprises and prevented him from others. The same goes for Ladino entrepreneurs. However, there is *circumstantial* evidence that potential Maya entrepreneurs, for reasons imbedded in the social structure, particularly related to the possibilities for getting adequate education, are steered away from the entrepreneurial sector of production and into the less promising entrepreneurial sector of commerce.
* A lower competence among those Mayans who *did* succeed in starting an enterprise, could be reflected in a lower productivity of their activity and thereby making them less competitive. This may prevent the enterprise from generating enough economic momentum, keeping it stagnant or even making it fail.
* The distinction between *enterprises of commerce* and *enterprises of production* is important because of the significant difference in growth potential between the two categories and the different entrepreneurial qualifications they call for.
* I found no indications that there existed veiled discrimination against Mayans, based on their ethnicity, within the financial sector when they tried to raise loans.

On hypothesis #2 (Chapter 6)

* The study concludes that it found no evidence in support of hypothesis #2, i.e., Maya entrepreneurs clearly do not use their ethnic business networks to promote their enterprises.
* This study concludes that Mayans represent a large pool of the cheapest labor within the informal sector.

On ethnic discrimination (Chapter 6)

* In lack of hard data on the situation specifically for the city of Quetzaltenango itself, it will be argued - using the *circumstantial* data at hand - that Mayans, as a group, indeed are disadvantaged in the city of Quetzaltenango.

The future of the informal sector (Chapter 7)

* The study reports that regulative and fiscal initiatives being planned both on the national and the regional level may have an impact on the informal sector of Quetzaltenango.

On the control groups (Chapter 7)

* The information on the Ladino control group did not in any way contradicts the information acquired from the Maya entrepreneurs. On the contrary, in some respect, it both strengthened and nuanced the over-all findings.
* It has been shown that homeworking is the least economic management form. It is proposed that the widespread use of homeworkers in the larger enterprises, is a way of *legally* circumventing the public regulations on safety and standards at the work place, as well as some other regulations, which, in the Department of Quetzaltenango, apply to enterprises of five or more employees.

RECOMMENDATIONS

Putting the findings of this study into a larger context, a few recommendations for future studies are forwarded.

* The economic modeling pioneered in this study needs to be followed up such that the assumptions of the model used can be generalized for wider use.
* Very little is known about the fabric of the informal urban *commercial* entrepreneurship. That applies to aspects like the motivation behind the establishment of the small commercial enterprises, the structure of earnings, the relation to municipality authorities, the role of ethnicity, the use and effect of formal financial institutions, the impact of ethnicity and significance for the regional economy. Particularly, the extent of the economic centralization in the sector and the interrelationship between the individual retailers and the networks of credit, marketing, and supply activities behind, are not understood.
* Very little work has been done specifically on the rural informal sector and even less on rural entrepreneurship, in spite of the fact that many authors hypothesize that the rural sector is considerable larger than the urban sector, both in people involved and economic importance.

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APPENDIX A

PERSONS/ORGANIZATIONS CONTACTED

PART 1: NON-ENTREPRENEURS:

Sr. Juan Carlos Lau, Director Departamental, FUNDESPE, 15 Av. "A" 3-33, zona 1, Quetzaltenango.
Sr. Juan Everardo Chuc Xum, Gerente General, TIMACH, 9a calle 4-11, zona 9, La Cuchilla, Quetzaltenango.
Licenciada Rossana Fernández (accountant), Proyecto Lingüistico "Santa Maria Spanish School", or Calle B22-75, zona 3, colonia Minerva (ph. 761-6445), Quetzaltenango.
Ing. Gándara, Gerente General, FUNDAP, 17a Av. 4-25, zona 3, Quetzaltenango.
Sra. Irene de León, COOSADECO R.L., 13 Av, 7 calle, zona 1, Quetzaltenango.
Sr. Alfredo Cupil López, Presidente, Sociedad El Adelanto (S.E.A.), Quetzaltenango.
Staff at MUNI K'AT, 16 Av. 4-53, zona 1, Quetzaltenango.
Office of Licenciado Rigoberto Quemé Chay, Palacio Municipalidad, Quetzaltenango.
Licenciado Rigoberto Quemé Chay, Alcalde Municipal, Palacio Municipalidad, Quetzaltenango.
Sr. Orlando R. Quemé P., Presidente, ADEQ, Quetzaltenango.
Sr. Ulises Quijiuix, Gerente de la Sociedad El Adelanto (S.E.A.), Quetzaltenango.
Ms. Dagny Skarwan, Coordinator of *ONGs Cuenca Alta del Río Samalá* Project, Quetzaltenango.
Licenciado Carlos Villagran, Auditor de la Muncipalidad, Palacio Muncipalidad, Quetzaltenango.
Licenciado Eduardo R. Vital Peralta, Centro Universitario de Occidente (CUNOC), Quetzaltenango.
Licenciada Alondy Maribel Cruz Vela de Jerez, Administrador de Empresas, 5a Ave. 5-34, zona 6, Quetzaltenango.
Licenciado Juan José Tañchez, Encargado de la Oficina de Recursos Humanos, Fabrica El Zeppelin, 4a Calle 15-38, zona 3, Quetzaltenango
Licenciado Marco Miguel Robles, Gerente General, Fabrica de Cantel S.A., Cantel, Quetzaltenango
Licenciada Macdoni Ovando, Encargada de la Oficina de Relaciones Publicas, Cerveceria National, Calle Rodolfo Robles 20-31, zona 1, Quetzaltenango

PART 2: ENTREPRENEURS INTERVIEWED

The personal information of the entrepreneurs is confidential and has been made available to the thesis supervisor only.

EM and EL indicate Maya and Ladino entrepreneurs, respectively.

EM-1	Clothes production/ sale desk
EM-2	Clothes production/ shop sale

EM-3	Fine shoe production
EM-4	Clothes production
EM-5	Shoe production
EM-6	Carpentry
EM-7	Children's clothes
EM-8	Food
EM-9	Shoe production
EM-10	Shoe production
EM-11	Paint/bodywork on autos
EL-1	Shoe production
EL-2	Paint/mechanical work on autos
EL-3	Ceremonial dress production/ shops with female clothes

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APPENDIX B

A MODEL: THE ENTREPRENEURS'S WORKING ENVIRONMENT

A. First Question Group

The entrepreneur is a Maya - in case of the control group, a Ladino - and may be either male or female. The entrepreneur, most likely, will have a family that partly or in full lives off the enterprise and participates in the activities of the enterprise. The entrepreneur's personal background will be mapped.

The enterprise will be in one of a few selected economic activities. The work force will be, in part, the family of the entrepreneur, and, in part, a mixture of Ladinos and Mayans. The operational economy of the enterprise and the type and value of investments (machinery, installations, tools) will be determined. The size of the operation and the managerial scheme being used, including possible cooperation with formal enterprises, will be determined.

Ethnic network: The entrepreneur may use his same-ethnic network to extract market protection and/or other competitive advantages for the operation of his enterprise. The potential of the network may have influenced the entrepreneur to select a certain niche for his enterprise.

Financial network: This may include dependent contacts to NGOs, formal banks and lending institutions, and informal financial contact with family and friends.

Economic decisions: During the operation of his enterprise, sometimes working on the economic margin, the entrepreneur may be faced with questions related to profit allocation, capital accumulation, equipment maintenance/ replacement/ purchase, or economic shortfall that

requires him to address the financial network.

Authorities: This item refers to the threat the authorities may represent to the operation of the enterprise, taxes or fees that may be imposed, environmental and other regulations in effect, and possible problems with access to public services like water and electricity - and how the entrepreneur juggles these obstacles.

External assistance: This item refers to possible external assistance which may be of benefit to the entrepreneur, in the form of advice and technical help the entrepreneur may be offered from NGOs, public offices etc.

Contractors (formal/informal): The entrepreneur may involve himself in different kinds of cooperation that implies that he agrees with a contractor to deliver a certain volume of production within a set time on a fixed basis. This could include subcontracting for formal enterprises.

Co-owners and creditors: The item refers to external influence, for example, the entrepreneur may have co-owners in the enterprise, who may influence the operation without taking direct influence on the operation. Or he may have - or have had - loans with formal or informal lending institutions which have collateral in his property and thereby influence his operation of the enterprise.

Suppliers: The entrepreneur may be dependent on external suppliers of parts and raw materials. If these are same-ethnic suppliers they may represent advantages and/or disadvantages compared with using suppliers in a larger competitive market.

Market fluctuations: This item refers to long- and/or short-term variations in the demand for the entrepreneur's products and how the entrepreneur tackles these.

B. Second Question Group

Family economy: The economic aspects of the enterprise may be partly or fully merged with the economy of the entrepreneur's family, either through contributions to the family income or by having some of the family members working in the enterprise.

Economic "balance sheet": The so-called "balance sheet" is the hypothetical overview of daily or weekly movements of value in and out of the enterprise, measured in economic terms. This may include, say, incomes, salaries to the employees, payment to suppliers, operational costs, ad hoc expenses, and support of the entrepreneur's family. A detailed information of these factors is the base for assessing the possibility of a capital accumulation in the enterprise.

Social conditions: This item refers to social aspects that are not covered under section A, i.e., to ethnicity of the employees (same-ethnic or other), firing and recruitment and stability of the work staff, relations to the employees' personal/private situation, labor salaries and benefits.

The routine operation: This items identify those obstacles that influence the regular operation of the enterprise.

C. Third Question Group

Economic status (as of date): This item identifies the value of the enterprise, including

machinery, tools etc. and the real estate itself. It will quantify the past and expected future performance of the enterprise and identify factors which may have an impact on the operation in the near future.

Non-economical factors: This item will address the existence and possible effect of structural factors, discrimination, ethnicity, racism, lost opportunities, and social/political obstacles in connection with the operation of the enterprise.

Initial decisions: This item addresses the reasoning behind the establishing of the enterprise, how necessary capital was raised, what had been necessary (machinery, housing, tools, other), how eventually the ethnic network was used, why the sector of activity was chosen, what kind of market assessment was made, etc.

My impression of the enterprise: Type, standard, location and description of housing; degree of technology used (type, age, number); impression of professional stardard/performance.

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ABBREVIATIONS

ADEPH	Asociacion Para El Desarrollo Del Potencial Humano, Quetzaltenango.
ADEQ	Asociación De Empresarios De Quetzaltenango
C.E.C.I.	Centro Canadiense De Estudios Y Cooperación International
COOSADECO R.L.	Cooperativa Santiago de Coatepegue (Responsibilidad Limitado)
COCARS	Coordinadora de ONGs de la Cuenca Alta Del Rio Samalá, Guatemala.
CONALFA	Comité Nacional de Alfabetización.
CUNOC	Centro Universitario de Occidente, Quetzaltenango.
EAP	Economic active population
FUNDAP	Fundación Para El Desarrollo Integral De Programas Socioeconomicos Apoyo A Artesanos Y Microempresas
IGSS	Instituto Guatemalteco de Seguridad Social
INE	Instituto National de Estatistica, Republic of Guatemala.
FUNDESPE	Fundación Para El Desarrollo De La Pequeña Empresa .
MUNI-K'AT	Instituto de Formación e Investigación para el Fortalecimiento de la Sociedad Civil y el Desarrollo Municipal
NGO	Non-governmental organization (national or international)
PROSIGUA	Programa De Apoyo Al Sector Informal De Guatemala Convenio Union Europea/ Gobierno De Guatemala.
Q'UQ' KUMATZ-MEN	MAGU Mesa National Maya de Guatemala
SAT	Superintendéncia de Administración Tributária
S.E.A.	Sociedad El Adelanto (a Maya organization).
TIMACH	Centro Maya Adrian Ines Chavec.

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VITA OF THE AUTHOR

Per *Ole* Christian Steinert was born in Oslo, Norway, June 13., 1940, by parents *Eli* Johanne Reimer Steinert (born in Roskilde, Denmark, 1906) and Ole Christian *Ragnar* Hübert Steinert (born in Kristiansand, Norway, 1904). Permanent address: c/o professor Bernhard Skaali, Egne Hjems vei 2A, 1340 Bekkestua, Norway (e-mail: osteinert@hotmail.com). His vita follow:

ACADEMIC EDUCATION

Aug. 1999 Started in the Ph.D. program of the Dept. of Sociology of the University of Texas at Austin, USA.

Fall 1999 Rewarded a Master of Art (MA) degree at the University of Texas at Austin, USA, within Latin American studies. He entered the graduate school in January 1998.

1975 Rewarded a M. Sc. degree (Norwegian: *sivilingeniør*) in petroleum technology at the Technical University of Norway (today NTNU, previously NTH), Trondheim, Norway.

1967 Rewarded a M. Sc. degree (Norwegian: *cand. real.*) in physics (speciality: solid state physics) at the University of Oslo, Norway.

1964 Rewarded a B. Sc. degree (Norwegian: *cand. mag.*) in physics (major), mathematics and chemistry, at the University of Oslo, Norway.

OTHER STUDIES OUTSIDE NORWAY

Aug. 1981 - Aug. 1982. Visiting scholar at the Dept. of Petroleum Engineering, University of Texas, Austin, USA.
TOPICS: Studies of enhanced oil recovery methods.

Jan - July 1974. Visiting scholar at Massachusetts Institute of Technology, Cambridge, Mass., USA.
TOPICS: Research within seismology on energy source functions for discriminating between earthquakes and underground nuclear explosions, and LP seismic energy distribution patterns.

May - June 1970. Working at IBM Seismic Array Analysis Center, Washington, DC, and the attached seismic array observatory (LASA) in Billings, Montana, USA.
TOPICS: Studies of equipment and computer software related to remote control, maintenance and calibration of seismic array instrumentation.

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PROFESSIONAL EXPERIENCE

NOVEMBER 1984 - NOVEMBER 1992
NORSK HYDRO A.S, OSLO, NORWAY

Norsk Hydro a.s is the largest industrial conglomerate in Norway (around 30,000 employees) and is the second largest Norwegian oil company.

Nov. 1984. Employed as Chief Engineer in Norsk Hydro a.s., Oil & Gas Division, Department of Field Studies.

TOPICS: Responsible for reservoir and reservoir simulation studies in relation to off-shore petroleum reservoirs on the Norwegian shelf in the North Sea.

April 1985. Appointed head of Department of Reservoir Simulation.
TOPICS: In charge of the department's professional and administrative functions in parallel with participation in the professional work. Among other things, he was project manager of the Ekofisk license responsible for Norsk Hydro's reservoir interests in the field; participated in the development and application of a 3-D, two-porosity reservoir simulator on that field during 1987-89; carried out reservoir studies on different fields within Norsk Hydro's portfolio.

Jan 1990. Moved to Department of Production Technology to get a broader professional basis in accordance with the company's policy to circulate its personnel. He supervised and coordinated the activities in this sector on the fields Mjølner and Hermod during their planning phase. (Estimated initial investment of each field: $1,000 million.) Both fields were approved for development by the management of Norsk Hydro and the Norwegian authorities.

Nov. 1992. To follow up some of his interests internationally outside his professional career, he applied for and was given one year of leave by Norsk Hydro. At the end of this period he decided to pursue his interests and terminated his employment with Norsk Hydro in November 1993.

APRIL - OCTOBER 1984
NORSK AGIP A/S, SANDNES, NORWAY

Norsk Agip A/S is a petroleum company which had a staff of around 70 employees in 1984. It handles the large interests of its Italian mother company, Agip, in the Norwegian North Sea in close cooperation with Agip's staff in Italy.

April - Oct. 1984. Employed as Senior Engineer with responsibility for special projects on the Norwegian shelf.
TOPICS: He promoted and followed up petroleum research sponsored by Norsk Agip and took part in reservoir studies on fields within Agip's portfolio on the Norwegian North Sea. In this capacity he also maintained link to and cooperated with the reservoir staff of the Italian mother company Agip's headquarter in Milan, Italy.

APRIL 1976 - MARCH 1984

THE SOCIETY FOR TECHNICAL AND SCIENTIFIC RESEARCH AT NTNU (SINTEF), TRONDHEIM, NORWAY

SINTEF is Norway's largest research institution with a staff of more than 2,000 employees and with research and development activities in a multitude of technical areas. It cooperates closely with the Norwegian Technical University (NTNU), Trondheim. Its main objective is to participate in and expand on the research at NTNU, and make the results commercially attractive to Norwegian industry and the society in general.

April 1976 - Fall 1977. Employed as researcher at SINTEF's department of petroleum technology, after his graduation as petroleum engineer at NTNU, with responsibility for SINTEF's petroleum reservoir simulation activities.
TOPICS: His main task was the development of a 3-D, 3-phase compositional numerical reservoir simulator, one of the first of its kind, that later was used to analyze North Sea reservoirs. Carried out different reservoir research studies on fields in the North Sea.

Fall 1977 - June 1978. Appointed daily manager of SINTEF's department of petroleum technology with responsibility for the day-to-day management. This function was carried out in parallel with the continuation of his earlier obligations.

July 1978 - June 1981. Appointed head of SINTEF's department of petroleum technology and applied geophysics. The department did contract research within reservoir technology, drilling, production and seismic modeling, with a staff in 1978 of around 25 researchers at M.Sc. and Ph.D. level.
TOPICS: Budgeting, finance, personnel matters, project acquisition, professional supervision and planning. He served as SINTEF's chief coordinator on matters related to petroleum technology topics. He took the initiative and worked out the details for a major enterprise - the establishment of a national research institute of petroleum technology. The plans got NTNU's and SINTEF's approval fall 1980 and the Government's support shortly after. With financial support from the oil industry, national institutes were established shortly after in both Trondheim and Stavanger.

July 1981 - March 1984. To be able to work more with technical matters within his profession, he terminated his manager position in July 1981 and completed a one year's sabbatical at the University of Texas at Austin, USA (see above). He returned to SINTEF October 1982 with the clear objective that he wanted no administrative responsibilities.
TOPICS: Completed different reservoir simulation studies for the Norwegian off-shore oil industry. He initiated SINTEF's later role as a competence center on teaching and technical support within the petroleum sector serving developing countries. In this capacity he did consulting in a number of countries in Asia and Africa on behalf of United Nations (UNDP) and Norwegian companies (see last section).

Assignments at SINTEF

1978-80 and 1984-88. Examiner at NTNU's Institute of Petroleum Technology on reservoir technology matters.

Spring 1981. Lecturer at the Institute of Petroleum Technology, NTNU, on well testing.

1979-81. Member of SINTEF's coordinating council (OTTER), which planned and coordinated SINTEF's involvement in the off-shore petroleum sector.

Fall 1980. Represented NTNU in the negotiations towards the Government's institutions in establishing a national institute for petroleum technology at NTNU in Trondheim, which he had proposed as department head at SINTEF (see above).

Assignments internationally — Refer last section.

APRIL 1967 - DECEMBER 1974

THE NORWEGIAN DEFENSE ESTABLISHMENT (FFI)
AND
THE NORWEGIAN RESEARCH COUNCIL FOR INDUSTRIAL AND TECHNICAL RESEARCH (NTNF), KJELLER, NORWAY

FFI is the second largest technological and most advanced research center in Norway with wide responsibilities for military research and industrial development in cooperation with Norwegian industry, with focus on Norway's defense interests.

NTNF is the largest research council in Norway. It is a Government body responsible for all Government-supported technical research in Norway.

NORSAR was at one time the largest and most advanced seismological observatory/research center in the world, a joint project between Norway and USA, started in 1968 and financed by USA. Its objective, which had its roots in the nuclear test ban negotiations between USSR and USA during the 1960s, was to develop scientific methods to discriminate between earthquakes and underground nuclear test explosions. The Norwegian research group consisted initially of 7 researchers at M.Sc./Ph.D. level with a technical support staff of 30 persons. (Refer also web site: www.norsar.no)

April - Dec. 1967. He served 9 out his 12 months of military service at FFI's section of mathematics at Kjeller, 30 km outside Oslo.
TOPICS: Developed computer software for navigation systems; worked on standards for computer mass storage; developed software programs on behalf of the Civil Defense Administration for describing radioactive fall-out in relation to the use of atomic weapons in Norway; lectured on programming languages and computer use.

Jan 1968 - Dec. 1974 . Employed as researcher at the seismological observatory NORSAR - administrated from its start in 1968 to 1971 by FFI, thereafter by NTNF.

TOPICS: 1968-71 Cooperated with IBM personnel in development of software programs for remote control of NORSAR's field instrumentation; supervised the work of the NORSAR's field maintenance staff (10 persons); participated on the technical side in the build-up of the data center and field installations.

1972-74. Appointed department head in charge of control and maintenance of NORSAR's field installations and the quality of the on-line continuous collected seismic data (staff: initially 11 technicians). The data were processed at the NORSAR center, but also distributed to more than 50 research centers worldwide. Part of the period he was also in charge of the NORSAR data processing center and the transmission network (staff: 12 engineers). Further, he participated in NORSAR's research activities and part of this work - on system upgrading, phasing calibration, identification of 'false alarm', criteria for setting signal-to-noise ratio alert, etc. - was published. (O. Steinert, S. Husebye, H. Gjoeystdal [NORSAR], 1975, "Noise Variance Fluctuations and Earthquake Detectability", *Journal of Geophysics*, 41, 289-302.)

Assignments internationally

Refer next section

INTERNATIONAL ACTIVITIES AND ASSIGNMENTS

After the employment at Norsk Hydro

As part of his work, as an international consultant and out of personal curiosity, he has visited around 110 countries/regions in all parts of the world (Table 2). During the year of leave from Norsk Hydro (1993) and the 4½ years that followed, he visited some 60 countries primarily in the 'Third World' in Asia, Oceania and Latin-America, with long stays in some, to pursue his interests on social, economic and ethnic matters (Table 1). After his arrival to USA in April 1997, he pursued studies of Latin America at University of Texas at Austin (see above).

During the time at SINTEF, 1976-84

1979-81. Representative of the Norwegian Ministry of Oil and Energy - and later elected vice-president by the participating eight countries - in the International Energy Agency (IEA)'s steering committee for petroleum research (EOR), in Paris, France.

1980 and 1984. On behalf of United Nations (UNDP) in 1980, he proposed and followed up the establishment of a center for training personnel and offering laboratory services to the Bangladeshi gas industry, during a series of visits to Dakha, Bangladesh. His proposals were approved by UN and the Bangladeshi authorities. The center came into operation in 1981. Based on a request from Norwegian agencies who later took over the professional management of the center, he was asked in 1984 to assess the operation.

1981. Member of the program committee of the "1981 European Symposium on Enhanced Oil Recovery", Bournemouth, England, 21-23 September 1981.

Oct. 1983 - Sept. 1984. Carried out on behalf of the Norwegian state foreign aid agency (NORAD) an extensive study on Mozambique's needs for technical competence in developing its petroleum resources, with proposals to meet these. The scope of the study implied also assessing the possible use of

educational resources in the other SADCC countries, particularly Angola and Tanzania. The study started out as a SINTEF project, but was completed as a private consultant project on NORAD's request after he had left SINTEF in March 1984. He included an evaluation of the social implications of his proposals. The final report was later characterized as a 'landmark' report of its kind by NORAD.

Nov. 1983. Hired by ISOT (International School of Technology), Oslo, Norway, as a technical advisor on petroleum matters during a one week's conference in Baghdad, Iraq, as part of a broad Norwegian trade effort towards OPEC, backed by Norwegian industry and the Government.

Feb. 1984. Employed by a consultancy company in Oslo, PETCON, to assess the operation and professional standard of the petroleum training and laboratory center in Dakha, Bangladesh, and offer proposals for the future operation and expansion of the center. He had been responsible for the objectives and the design of the center as part of his work for United Nations in 1980 (see above).

During the time at FFI/NTNF

1969-74 The uniqueness of the NORSAR installation and the international interest both in its hardware, software and the ongoing research and system development, implied 1967-74 a fair amount of information work internationally, i.e., lecturing on conferences, visiting other research institutions, giving talks in different professional meetings and maintaining personal contacts at some of the more than 50 research centers that used NORSAR's data.

Aug. - Sept. 1972. Participated at the request of the University of Denmark (Geodætisk Institutt) in establishing a seismic WWSSN recording station in Danmarkshavn, North-East Greenland, at 79ºN.

May - June 1970 and Jan - July 1974. Studies in USA in relation to the NORSAR activities (mentioned earlier).

Table 1
Regions Visited Since Fall Of 1992 (As Of August 15, 1999)

REGIONS	Months	Countries .
Asia	14	15
Oceania (Australia, New Zealand, South Pacific, Hawaii)	13	6
North America:		
USA (Alaska), Canada	2	2
USA (Lower 48)	26	1
Mexico and Central-America	21	8
South America	10	12
The Caribbean Islands	4	17

Table 2
Countries Visited 1957-1999

AFRICA	Angola	Botswana	Burundi	Egypt	Kenya
	Malawi	Mozambique	Rhodesia	Rwanda	
	Uganda	Tanzania	Zaire	Zambia	
MID- EAST	Iraq	Israel	Jordan	Lebanon	Syria
ASIA	Afghanistan	Bangladesh	Burma	Cambodia	China
	Hong Kong	India	Macao	Malaysia	Nepal
	Pakistan	Singapore	Sri Lanka	Thailand	Tibet
	Uzbekistan	Vietnam			
EUROPE	Austria	Belgium	Czechoslovakia	DDR	Faros
	Denmark	England	Finland	Germany	France
	Greece	Greenland	Hungary	Iceland	Ireland
	Yugoslavia	Italy	Luxembourg	Monto Carlo	Russia
	Norway	Netherlands	Portugal	Romania	Spain
	Scotland	Sweden	Switzerland	Turkey	
	Vatican State	Northern Ireland			
OCEANIA	Australia	Fiji Islands	New Zealand	Hawaii	Tonga
	Western Samoa				
N. AMERICA	Alaska (US)	Canada	USA		
C. AMERICA	Belize	Costa Rica	Guatemala	Honduras	Panama
		Nicaragua	San Salvador		
S. AMERICA	Argentina	Bolivia	Brazil	Chile	Guyana
	Colombia	Ecuador	Paraguay	Surinam	Peru
	Uruguay	Venezuela			
CARRIBEAN	Barbados	Anguilla	Antigua-Barbuda	Dominica	Cuba
	Grenada	Montserrat	Saint-Martin	Sint Maarten	St. Lucia
	St. Vincent	Grenadines	Trinidad-Tobago	St.Kitts-Nevis	Puerto Rico
	Dominican Rep.	UK Virgin Islands		US Virgin Islands	

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The fieldwork for this study was completed and the draft for the thesis was typed in Quetzaltenango, Guatemala, by the author during six weeks of June and July of 1999, using an IBM 755C laptop computer.

Final version: main text 50,340 words; attachments 5,754 words.

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